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The Japanese Peace Treaty

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ACE TREATIES seem often to have ex-
gerated importance in the minds of
e general public. School children are
quired to memorize treaty dates as
ose of events which have kept the
orld in order until some Hitler or
ojo decided to make another war.
iplomats who have negotiated a par-
cular peace treaty understandably ad-
ire their handiwork. They too may
ink of it as a substantial landmark in
orld history determining its future
urse. Yet if such diplomats are also
udents of that history, their enthusi-
m may well be tempered as they view
e sad fate of previous treaties. Like
e wrecks of motor cars along our
ghways, they have been pushed out
their intended course through col-
ion with some force more power-
l than the drivers of autos or the
akers of treaties. At any rate, after a
eat war the victors usually optimisti-
lly assume that the peace treaty
hich followed it will be permanent.
et the vanquished may already be
anning its abrogation. A German
hool text used after World War I ad-
onished its young readers: "Children,
is treaty must not be permanent."

To some political scientists peace
eaties are important as the substitu-
n of agreement for force in inter-
tional relations. This school of
litical scientists has faith that such
bstitution is possible, especially if
pported by a strong United Nations.
ey tend to give minimum attention
underlying forces which could make
ch an agreement "a scrap of paper."
Other political scientists, claiming to be more realistic, view treaties of peace for what at the moment they are: the expression of the will of the currently dominant aggregation of power in the relations of states. This last view is indeed correct at the moment a peace treaty is signed. Yet it is in fact unrealistic, in so far as it disregards changes in deeper economic and social conditions which may alter the balance or preponderance of power. The general public, the international lawyers, and the first-mentioned school of political scientists hold peace treaties to be morally binding, independently of conditions which may put tremendous strains upon them. Germany, they contended in the 1920's, "ought" to pay an unpayable reparations bill because she had pledged herself to do so.

It will be the assumption of this article that peace treaties must be viewed, not in terms of what ought to happen, but in terms of what seems likely to happen. It will be the thesis of this short discussion that the probable life span of a treaty of peace depends upon a vast complex of social relations, internal and external, which make up what we call the international conflict and cooperation processes. Peace treaties are apt to be enduring if consistent with changes in those processes. In themselves, however, peace treaties are relatively unimportant points of decision in man's efforts to control those processes. The treaty of peace with Japan is seen to be immediately effective because it aligns Japan with that

one of the two great aggregations of power which is at the moment the stronger. Indeed, Japan had little choice because the American bloc of nations was the only one immediately available to her at the date of the treaty. It may be that from the longer-time point of view the permanence of the treaty may be less assured. Its life span will depend upon the outcome of the conflict of ideologies and political and economic interests which is the essence of the Soviet-American cold or near-hot war. That outcome, in turn, may depend immediately upon the relative control of atomic or other destructive power by the two contending power systems. The ultimate outcome in Asia, however, will not hinge upon the control of such power, nor upon the relative merits of communism and "free enterprise," important as that question is. Rather, it will depend upon the effect upon that issue of the ponderous awakening of the underdogs of mighty Asia.

Treaties of peace are also often read as though their keeping or breaking were wholly within the control of the defeated state which signed them. The keeping of the peace, like the initiating of the war, is erroneously viewed as a unilateral act. It is further popularly assumed that such treaties represent the sincere, voluntary, and considered promises, or even desires, of the people of former enemy states. These promises are deemed sacred. Unless altered by mutual agreement they "ought" to be kept. But often they are not kept. This fact suggests consideration of certain conditions determining the permanence of peace treaties.

Conditions Determining the Life Spa of Peace Treaties

As has been suggested, treaties c peace have often proved fragile. The remain in force only so long as the cor ditions which created them remai constant. They usually express not th sincere promises of the defeated, bu the desires of the victors imposed upo the vanquished. Victors moralisticall assume that only "evil-minded," "ag gressive" statesmen will fail to live u to treaty provisions. But at least thre characteristics always militate again the acceptance of peace treaties b the defeated as moral obligations (1) They are always in some degre associated with the sting of defeat. Th treaty of peace with Japan perha involves less bitterness for the lose than usual, first because considerabl time has elapsed since the war, and al because of the partially favorable e fects of the Occupation experienc upon attitudes toward the conqueror (2) The fact that victory in war achieved by force is not conducive t the acceptance of peace treaties by th defeated as moral obligations. The ve people who have asserted that migl cannot make right have used force t prove their contention and to demo strate the superiority of their valu systems. (3) Treaties of peace are tr ditionally suspect within the defeate in-group, because they express mor values imposed by an out-group. T say this is not to imply that mor values are without force in intern tional relations — far from it. It rather to recognize the conditions witl out which such moral values fail t function as forces among the defeate That condition is that the values mu

e accepted by the defeated in-group ecause traditional, and/or that new alues have come to be accepted be- ause they determine its status in a arger community of nations into which t has been incorporated — such as he United Nations. The Occupation SCAP) tried to sell democratic and acific values to the Japanese people. The peace treaty in some slight degree was designed to strengthen these values. The Charter of the UN emphasizes ome of them. Japan is pledged by the reaty to continue along the road to lemocracy. Yet American leaders are oday less concerned with this effort to give Japan new values than with the ttempt to build her into a support or a great fighting machine directed gainst Soviet Russia. The peace treaty elps to make this second achievement ossible. This indeed is its major aim. apan may arm again. Presumably apan *must* arm again if she is to se- ure American aid indispensable to her ecurity. But these two treaty aims — emocratization and pacification, and ilitarization — are not entirely con- istent, to say the least. This view will e challenged, because the military ffort is sincerely intended as a defense or democracy and in the interest of eace. Further, it may properly be rged that American interest in the emocratization of Japan continues. oth contentions may be granted with- ut denying the inherent inconsistency f the two efforts — an inconsistency hich indeed appears in many nations oday, including the United States her- elf. The point emphasized here, how- ver, is that the fate of the treaty epends not so much on the moral ntegrity of the Japanese as upon deeper forces, to be mentioned later, which may support or weaken that integrity, and tend to strengthen or break the treaty. Some of these forces are economic.

The first condition determining the permanence of a treaty of peace would seem, then, to be that the above-men- tioned difficulties be overcome. Japan accepted the treaty of peace immedi- ately because the world power system as it impinged upon her compelled acceptance. Japan also signed immedi- ately because the treaty is a source of security in a very dangerous world, where she cannot rely upon her own strength. But the ultimate life span of the treaty will depend upon more basic influences governing the internal and external relations of Japan. (1) If the Occupation experience has provided a foundation for cooperation with the West, the treaty will tend to hold. (2) If the treaty and what goes with it meet the basic needs of Japan, some of which help to explain Pearl Harbor, the treaty will tend to be lasting. (3) If the treaty reinforces democracy in Japan, if that democracy is as the United States contends inherently sat- isfying and pacific, and if it is accepted voluntarily by Japan and so prevents further "aggression"[1] on her part, the

[1] We put the word "aggression" in quotes advisedly. Its realistic definition is difficult and controversial. That Japanese forces took the initiative at Pearl Harbor seems beyond dispute. Yet when one considers Japanese-American conflict relations as a continuing multilateral process, it is equally clear that the war did not begin at Pearl Harbor nor with Japanese initiative in Manchuria or other parts of China. Similar questions arise in Korea. The word "aggression" will how- ever be used without quotes throughout the rest of this article. The reader may insert them mentally or not, as he sees fit.

treaty should tend to be effective. (4) If the treaty successfully aligns Japan with the states arrayed against Soviet Russia, and if the West succeeds in deterring Soviet aggression and winning the cold or hot wars with Russia, the treaty will tend to remain. (5) Far more basic, if the military victory of the West over Communism is consistent with forces operating — especially in Asia — which are deeper even than the conflict of economic systems, the peace treaty will tend to have a long life.

These five considerations will come under all-too-brief and dogmatic discussion in this article. Tentative conclusions on these five points may be stated: (1) The Occupation experience created mixed and varying, but on the whole favorable, attitudes toward America on the part of the Japanese people. (2) In spite of certain benefits to Japan the treaty does little to meet her basic needs. (3) Partly because of failure to solve these problems of need, and partly because the treaty tends to reinforce reaction rather than liberalism in Japan, it may not be effective in turning Japan away from aggression in the future. However, aggression seems to depend upon circumstances far more basic than any peace treaty. (4) The immediate effect of the treaty is to align Japan with the United States in the struggle against Soviet Russia, but the long-time consequences depend upon conditions independent of, or possibly in conflict with, treaty provisions. (5) The treaty will not last, and the struggle between the Soviets and the West will not be decisive, unless one (or both) of the two great aggregations of military power is somehow able to solve the basic problem of the East. Some of these problem are created by the potentially sti greater force generated by the rise c the masses of Asia. These questions ar highly controversial. If our tentativ answers to them are sound, they con stitute further ground for doubting th great importance of the peace treat with Japan. We are discussing th treaty. But it will prove impossible t separate its fate and influence fron that of other treaties, policies, and con ditions of which it is part and product For example, it is not the peace treat which explicitly requires Japan to re arm and to permit American troops t be quartered in Japan, but the peac treaty makes that step possible.

One consideration related to ou fifth tentative conclusion is so im portant that it may be mentioned her and perhaps repeated at the end o our discussion. The treaty of peace wit Japan, together with other treaties an plans, in effect incorporates her int what is predominantly an Atlanti rather than a Pacific power system This is in spite of the importance o Australia, New Zealand, the Philip pines, and other Pacific countries with in the same American power system Geography, economic and cultural in terdependence, and in part history cal rather for Japan's integration first int relations with the great Asiatic powers Close to a billion Chinese, semi-Asiati Russians, and Indians are at the mo ment outside the power system of th West — the position of India being stil a bit doubtful. Within these vast popu lation aggregates are found the grea new movements constituting the up heaval of mighty Asia in action: th

rise of nationalism, the struggle of the peasant for land, the pressure of population, the revolt of Asia against Western imperialism — in general, the rise of the underdogs of the East.

These forces are part of or related to other deep forces stirring in the West with the dawn of the atomic age. But at the moment Asia is at least more dynamic than tired Europe, and perhaps more so than self-satisfied America.

Perhaps, then, the most basic question regarding the significance of the peace treaty for Japan concerns its effects upon her role in the East. Shall Japan again regain her industrial leadership there? Shall she return to her prewar and wartime imperialism there? Shall she abandon most of Asia to Communist control and become a sort of island of Occidentalism and "free enterprise"? Shall she await the possible failure and collapse of Communism, and with America become a leader of a revived social and economic system on the American pattern, as by military might or through inherent superiority, it ousts Communism and dominates the world? Or could she conceivably participate in some "third force," hinted at by India? Or finally — fond dream — could Japan support some compromise and integration of ideologies and systems which a few irrepressible idealists still hope might bring a more stable world? Is it not in relationship to these large issues that the peace treaty with Japan takes on significance or insignificance? One thing seems assured. Neither Stalin nor Truman can afford to disregard the ultimate convulsions involved in the rise of a billion Asiatic underdogs — unless, indeed, civilization and all the dogs are soon to be atomized.

Some Characteristics of the Treaty of Peace with Japan

There is no need to consider all the clauses of the peace treaty. Rather, attention will be confined to certain aspects most significant for discussion of the five topics already indicated. As related to these topics the treaty itself seems more significant for what it does not do, than for its actual provisions. Some of these omissions concern problems, like that of overpopulation, with which a peace treaty can hardly be directly concerned. One or two omissions seem favorable to the permanence of the treaty. Others might perhaps well have been included.

Peace treaties, as the visible accomplishment of costly, deadly, and hate-provoking combat, have not usually shown primary concern for the welfare of the defeated. It requires rare statesmanship to see such benefits to the former foe as essential to the interests of the victors or to world peace. America may have such statesmen. But the constructive aspects of the Japanese treaty were chiefly possible because America needed Japan's aid in another and greater conflict. Though lacking in the vindictiveness often evident in treaties of peace, the treaty with Japan exacts promises from her and, in itself, guarantees her little in return. There are, of course, the substantial advantages resulting from resumption of friendly contractual relations. There are other benefits derived from Japan's contemplated membership in the United Nations.

Through her alliance with the

United States, Japan gains powerful protection against possible conquest by China and Russia. On the other hand, Japan loses her very important markets in China so long as Communism is in control there; and she risks becoming the battlefield of World War III. She gambles upon the victory of the cause of the West.

The treaty deprives Japan of much territory. That territory, however aggressively acquired, had afforded her apparent advantages, in addition to prestige as the leading Asiatic power. The acquisition of that territory had not, indeed, solved Japan's basic problem of overpopulation. By aiding her industrialization with its accompanying urbanization, however, control of such areas as Manchuria may have indirectly helped check her high prewar birth-rate and suggested the possibility of the ultimate solution of that problem. Some of that territory, now shorn away, had been a source of needed raw materials and markets. From the strictly economic viewpoint, political control of territory has been said not to be essential to trade in a peaceful world. Such political control is made to appear more necessary, however, since modern trade has been subjected to tariffs, quotas, and barter agreements. Political control of trade is vital in time of war or threatened war unless synthetic or other substitutes make trade less important. Thus this loss of territory in itself will tend somewhat to aggravate the demographic and economic problems of Japan.

Under the terms of the treaty Japan is expected to apply for admission to the UN and accept the basic principles of its charter. She specifically adopts the United Nations Declaration on Human Rights. As former victims of the violation of some of the principles of that Declaration, as well as violators themselves, the Japanese may have mixed emotions regarding this particular requirement. Japan can certainly learn the value of some of the freedoms from the United States, and has done so under the Occupation. Currently, however, she can observe restrictions on free discussion even in America, and under American influence in Japan. More importantly, Japan has suffered at American hands discrimination on the basis of race, for example in the Immigration Act of 1924, and when she vainly attempted to have the principle of racial equality accepted in the League of Nations. Japan also agrees to further "conditions of stability and well-being as defined in Articles 55 and 56 of the Charter." Moreover, she engages to continue steps designed to that end already initiated in Japanese post-surrender legislation which was largely dictated by SCAP.

Japan promises to use "fair practices" in her trade policies; to settle disputes by peaceful means; and to refrain from aiding the enemies of the United Nations. Although the Charter similarly requires this last promise of all member states, it has special significance since the UN has become a fighting organization against the wishes of Soviet Russia, Communist China, and North Korea.

Japan accepts the moral obligation to pay reparations, the amount of which, however, is not specified. Moreover, the treaty specifically states that payment of such reparations is not to interfere with Japan's efforts to achieve

viable economy. Reportedly Japan has already taken steps to discuss reparations with other countries, at least as a gesture of goodwill and sincerity. Yet it may well be doubted that any substantial payments will ever be made.

The treaty recognizes Japan's right of self-defense through her own efforts, and through joining with other states in programs of collective security. The states are not specified but their names may easily be imagined. This clause in the treaty is either contrary to the renouncement of use of armed forces, set forth in the Japanese constitution, which was dictated by SCAP; or it is a very liberal interpretation of the pronouncement. The treaty also establishes the expectation that Japan will, through agreement with some unnamed state or states, permit foreign troops to be stationed within her territory. This clause and the separate agreement with the United States are of course in form voluntary. They are at least verbally approved by the Yoshida government. They are nevertheless opposed by minorities in Japan, and actually constitute real limitations upon her effective sovereignty. They also mean continuance of dependence upon the United States for defense, if no longer for all other forms of assistance previously offered and often gladly accepted.

The conditions under which Japan may trade and fish are left by the treaty to future agreements with particular states. Pending such agreements, Japan agrees to apply the principles of most-favored nation and/or national treatment in her trade relations with other countries. Other states are not similarly bound in their trade relations with Japan. Something of this sort may, of course, result from individual trade agreements or possibly through Japan's association with international organizations promoting that policy. Important, if enforceable, is the clause by which Japan promises to develop her trade on the basis of commercial principles only. This seems to permit her to use to the full her bargaining advantages. It would not, however, permit her to "dump" goods, restrict sales for political purposes, or use trade restrictions as weapons against others. It may be granted that, partly under American leadership, the nations are nominally accepting this principle of nonpolitical use of trade controls, and that some steps in that direction are under way. Nevertheless every trading power still utilizes trade policies for political ends. The United States is currently employing trade restrictions as a weapon in her cold war with Czecho-Slovakia, for example. In so doing she has met the criticism even of some states not behind the Iron Curtain. Indeed in the recent past, at least, world trade has been so dominated by political rather than commercial considerations that some specialists contend that one can no longer speak of purely economic laws as operative in the trade relations of the modern world.

The above are a few of the provisions of the treaty, stated in nontechnical terms and hence not with explicit exactness. The treaty has been called one of remarkable generosity toward a former foe. As peace treaties go, this characterization is probably correct. There are, of course, conditions

other than a spirit of generosity which favored generally constructive provisions. Moreover, some of the advantages which the treaty offers involve concomitant risks. For, aside from affording security against Russia or China, the treaty does not meet the basic needs of Japan, such as some of those discussed later in this article — needs some of which help to account for her past aggression.

Perhaps the generosity of the treaty appears especially in two of its aspects. In order partly to meet the strong objections of such states as France and the Philippines, the principle of reparations is recognized, although as indicated above there is no guarantee that substantial payments will be made. This is in contrast with the impossible reparations provisions of the Treaty of Versailles. The liberalism of this aspect of the Japanese treaty is less evident, however, on further consideration. A few informed people of the world have learned that large reparations cannot be collected without serious injury to receiving states as well as to the paying state. If the economic difficulties created by efforts to transfer reparation payments were added to the chaotic state of international finance today, the confusion would be greatly increased.

Moreover, in the present instance failure to exact reparations seems to stem from a desire to make and keep Japan industrially strong as part of the support for the West's military preparations against Soviet Russia. The Occupation experience in Japan had shown the necessity for large-scale industrial development if Japan were barely to feed her people. Much greater development is required if she is to build herself into a tower of military strength for the use of the West and still keep her people alive and industrially efficient. Still more is needed if Japan is to hope to emulate the higher plane of living of advanced industrial states. Nor is such an ambition merely a matter of the happiness of the Japanese people. For to protect or gain such a higher standard some states have seemed willing to risk the danger of war. Jealousy of America's preponderant wealth today is a disturbing psychological force in Western Europe. The desire of the semi-industrialized world to match that wealth, and hindrance to the satisfaction of that desire, are among the sources of international tension.

Probably more generous than the lack of definite reparations requirements is the absence of any guilt clause in the treaty. Perhaps no aspect of the Treaty of Versailles served more to embitter the Germans, and to give Hitler popular support, than its guilt clause. This clause required Germany to accept full unilateral responsibility for a war which objective historians knew to have been the result of multilateral problems and tensions. Japan also had previously been held responsible for World War II, and such is the implication of the one-sidedness of even this generous treaty. Moreover, the treaty does require Japan to accept the verdicts of the war-criminal trials. But it is only by implication that Japan acknowledges her guilt in the treaty. That fact helps save the face of a people who are much concerned not to lose face. It also makes it more reasonable to expect Japan to accept her share of accountability (not to be con-

used with the moral concept of responsibility) for the war disaster. Her cooperation in constructive war-prevention activities will thus be favored.

The Occupation and the Treaty

Japan's willingness to abide by the terms of the treaty will be influenced by the reactions in retrospect of her people, dominant groups, and leaders to the experience under the Occupation. Neither space nor available material permits confident prediction of such future reactions. Studies of more immediate attitudes toward the SCAP program while it was in operation are not fully dependable even as of their date. To say the least, the early occupation did not appear to the Japanese as burdensome as they had expected. There was gratitude for enough rice to keep the people alive when it could only be obtained from abroad with SCAP's consent and assistance. There was much sincere admiration of General MacArthur, and there was acceptance of many SCAP policies. There was and is perhaps genuine enthusiasm (along with some insincere pretense) for such principles of democracy as were comprehended. A few intelligent Japanese may have secretly questioned the full consistency of these principles with the practice of social democracy in the United States and even in parts of the SCAP program. The general nature of the overt response of the Japanese was favorable, and that overt response remains dominantly favorable today.

On the other hand, one must remember that to carry on at all the Japanese must needs have appeared to cooperate with SCAP. This necessity, plus perhaps the effect of the traditional Japanese desire to please and save face, makes reports of Japanese opinion more than usually suspect. In addition SCAP has not given us a superfluity of facts about Japanese reactions to the Occupation, and has resented criticism. Reports of newspaper correspondents and others have helped, but have been under both official and unofficial restraints. It generally appears that Japanese reactions to the Occupation experience have been mixed, have been more favorable than in Germany, and more favorable than is usually expected to result from postwar occupation of territory by victors. But it also appears that there yet remain potentialities of future revolt against the system SCAP attempted to set up. The outcome will depend upon deeper influences than those either of the Occupation or the treaty of peace.

The Treaty and Japan's Basic Needs

The distinction between needs and desires, between lack of necessities and lack of luxuries, is arbitrary when one studies the motivations of states. To exist at all nations need food and other material things. Their need for security is perhaps more basic than their need for food, and the need for status and prestige in the society of nations is also compelling. This may be said of nations with little regard to their cultural differences. But values in the culture of a people are also cherished goals. Some values can make of what others may call an unessential ambition a necessity which drives a government to action. Some needs or desires which actuate nations concern their people generally;

some concern only subgroups of which they are composed. Some are the needs of representatives of their governments who determine policies. A peace treaty which meets basic needs will tend to hold. A treaty which leaves such needs unmet will tend to be broken. Pearl Harbor was in part due to unmet Japanese needs such as need for food, raw materials, and markets. What, then, are the needs of Japan and how is the peace treaty related to their satisfaction?

Politically Japan needs independence of foreign controls except those which other states have voluntarily accepted. She needs a chance to work out her own problems. She needs protection against possible attack while she remains weak. She is close to Korea, Russia, and Communist China. Through her imperialism she incurred the hatred of some of the people of the areas she occupied during the war, even though she also in some degree contributed to their growing desire to be rid of the white man's imperialism. The treaty permits Japan to rearm defensively. The treaty gives Japan American protection, but in so doing greatly limits her sovereignty and continues her dependence upon the United States. She is also expected to be a party to a system of collective security against Communism in Asia, as well as that implied in her prospective UN membership. There is in Japan great popular yearning for peace and aversion to rearmament. It is said that desire to remain neutral in the Soviet-American conflict was weakened by the nearness of the struggle in Korea. According to the women members of the Diet addressing Mr. Dulles, the common people did not approve the terms of the peace proposals. Nehru has based his opposition to the treaty upon his belief that the people generally do not like it. Very recent opinion polls have indicated majority approval of the treaty, but less approval of American troops remaining in Japan. It is still a bit difficult to know how far official support of American policies is sincere, how far it results from pressure by American representatives, and how far from the immediate necessity to please the United States. This doubt will perhaps remain so long as we have troops in Japan, or so long as the immediate situation requires cooperation with America.

Japan also needs to play a satisfying world role commensurate with her past and potential position of leadership. Like inmates in our prisons, Japan, punished for her past behavior, needs above all else to regain her self-respect. In considerable degree Japan's war effort had been in search of prestige through imperialistic expansion. Such expansion was once a characteristic of the Western powers Japan emulated. It is still practiced by some of them, but is discredited at least verbally by nations associated for peace. The painful fact is that Japan herself, in earlier years, did escape from Western imperialistic domination and exploitation by copying the industrialism and imitating the militarism and imperialism of the West. Nevertheless, her renewed self-respect in the society of peace-loving nations depends upon her renouncing such imperialism.

Demographically, Japan needs to support a population increasing by over a million a year. She needs quickly

and greatly to reduce that high rate of natural increase. As we write, very substantial reductions in the rate of Japan's population increase are reported following a very high rate in earlier postwar years. Japan's crude birth rate, which was 33.79 in 1948, is reported as 22.5 for the first half of 1951 — a drop of one-third. In spite of a parallel fall in her death rate, the rate of natural increase, falling from 21.8 to 13.3, registered an even greater drop. It appears, however, that each year about a million additional mouths to be fed are still added in Japan. But if this very recent shift in natality trend is to continue, it is indeed good news for Japan. Conceivably this great improvement has been the result of recent legislation legalizing birth control and also abortion in some types of cases. SCAP did not initiate this legislation but did not prevent it.

Japan's most pressing economic problems grow out of this basic demographic need, and highlight needs for markets, food, and raw materials. The treaty itself does little or nothing to meet such needs other than to give Japan opportunity to develop her own economic policies. On the one hand there is great fear of Japanese competition, on the other there is much doubt that Japan can obtain what she needs. Over-all international economic planning in the interests of all concerned seems requisite. Actually, trade wars and restrictions may be anticipated. The treaty does attempt to prevent unfairness on Japan's part in these areas.

Culturally, Japan needs that dangerous feudal and other values in her society be eliminated. SCAP policies have attempted this, but the treaty can hardly do much about it in itself. Japan also needs that positive values in her culture be appreciated abroad. She needs to solve her problem of adjustment between her traditional value systems and those characteristic of modern industrialism. Japan had before the war shown herself remarkably capable of adopting Western ways, although government control of what values of the West were to be adopted led to a selection of dangerous rather than pacific values. Japan needs to absorb from the West without suffering from those elements in Occidental cultures, including America's, which tend toward conflict. Among such one might venture to list excessive individualism and materialism and a tendency toward discrimination on the basis of assumed superiority or inferiority of race. The treaty hardly deals with Japan's cultural needs. The Occupation attempted to do so, but without guarding her against the above-mentioned dangers. Moreover, as indicated in the following section, the treaty will support American plans which are currently giving precedence to rearmament and to other trends inconsistent with the attempt to make democratic values attractive to Japan.

The Peace Treaty and Democratization

The Occupation of Japan was designed to make her safe through a negative program of control and deterrence, and a positive program of reconstruction and democratization. For the former purpose her war criminals were punished and her former war leaders of various types purged. Her islands were occupied; her government was made subordinate to SCAP; she

was deprived of territory, shorn of her merchant marine. Her sacred emperor renounced his divine origin and became a symbol of national unity but not legally a political power. A democratic constitution was thrust into her hands, together with a political structure believed to be oriented toward peace. For the most part the Occupation assumed that the nearer Japan approached the likeness of her chief conqueror, the safer she would become as a member of the society of nations. New social classes were created or encouraged which it was believed would retain a stake in democracy after the occupation was ended. Social legislation, a conservative labor movement, a democratically oriented school system, land reform, decentralized local government, the elimination of the dominance of huge industrial and financial trusts, an expanded suffrage with a more active role for her women — such changes were held to be constructive and good for Japan, but they too were imposed.

The section above has left in some doubt the degree to which these constructive changes were accepted by the Japanese people. During the later years of the Occupation SCAP supported conservatism, and still later subordinated interest in democratization and pacification to interest in the building up of industrial and potentially military strength. The treaty nominally leaves the works of SCAP intact. The treaty, by making possible the rearmament of Japan and by preparing the way for her continued "occupation" by American troops, has supported the later rather than the earlier aims of the Occupation. It is true that the rearming is to be done in defense of democracy, even if changes in the interest of such defense tend to destroy much of Japan's orientation toward a liberal social system. The hope for democracy thus remains in Japan after the treaty gives her nominal sovereignty. But trends thus far seem to indicate that Japan will be freer to restore dangerous elements of her previous regime than to slacken in her effort to support the military program. The treaty does little to guarantee the permanence of democratic trends in Japan, while the rearmament program will leave her fewer resources for the support of her new schools and welfare program in the interests of her common people. Not only will there be fewer resources for that purpose, but the bureaucratic structure and the political and class leadership most fit to build up military support does not appear to be most fit to nourish Japan's infant democracy. That liberalism which is the best defense against aggression seems to be weakened if not dying in Japan. Does not rearmament, even if wholly unavoidable, threaten liberalism throughout the world today?

We cannot even characterize the many important influences of the Occupation program in Japan. Some of them were favorable, some unfavorable, to her democratization. We mention, however, one consequence of the Occupation, not connected with democracy but of major importance. This was the very important discovery by SCAP that a victor, occupying the territory of a former enemy, of necessity becomes responsible for the problems of the ex-enemy. Sent in some degree to punish Japan, MacArthur perforce had to aid

Japan. He had to try to solve her immediate problems, and he became cognizant of her long-time problems which had helped account for her previous aggression. MacArthur became an advocate for Japan in his relations with other states in the Far Eastern Commission. This discovery that Japan's needs must be met, plus America's need for her aid, in part accounts for the relatively constructive emphasis of the treaty of peace which Mr. Dulles drafted and sold to states which would have preferred a more punitive treaty.

The Treaty and the Struggle with Communism

It is evident, then, that the purpose of the treaty is not primarily to meet Japan's needs, or insure against her return to aggression through her democratization. It is rather to enlist her aid against Soviet Russia. This aim is, of course, nowhere specifically stated in the treaty, but everyone knows it is implied. Hence the opposition of Soviet Russia and her satellites. There is no doubt but that this treaty aim will be immediately achieved. American troops will remain in Japan. Japanese industry is already in the midst of an artificial boom created by its support of United Nations armies in Korea. Japan, with American aid, may become the bulwark of Asia against Communism. Parts of the program of democratization may remain for a time, but wherever they conflict with the rearmament program they will be postponed or abandoned. The Occupation had made of Japan a fascinating laboratory experiment in controlled culture change: in induced democratization. The great tensions in the world of today, reflected in the treaty of peace, bid fair to spoil that experiment. The laboratory of democracy has become a rearmament workshop. Reactionaries seem to be running the workshop. It is in danger of turning out some of the same dangerous by-products of reaction which the old Japan produced.

The Treaty and Deeper Forces

The relations between nations in their dynamic aspects may be viewed as social processes. Those in which we are chiefly interested are the not wholly separable processes of conflict and cooperation. War is an intensification of conflict relations between states. When one centers attention upon a treaty of peace, one thinks of it as concluding or regulating the conflict relations between two sets of states which have been at war. The treaty of peace with Japan, however, illustrates well that the international conflict processes are never wholly bilateral. Since all modern states intercommunicate, trade, and become in great degree interdependent, their relations are multilateral. The gestalt — the total of their conflict-cooperation relations at a given moment — is the intersection of the relations of many states. Thus before the war, during the war, during the Occupation of Japan, and when the treaty was negotiated, relations other than Japanese-American — other than those involved in World War II — were influencing one another.

Today the conflict between the Soviet and the American-dominated power systems, and the so-called Communism versus free enterprise issue, have come to overshadow the conflicts of World War II and the democracy-

totalitarian issue therein involved. Hence the peace treaty with Japan perforce becomes far more an incident in the former than in the latter conflict process. In the last section we briefly referred to this relationship of the treaty to the cold-hot war with Russia.

But important as is the struggle between the Soviets and their adversaries in its economic, ideological, and potentially military aspects, it is not the only line of conflict in the world today. Still deeper forces are stirring and producing conflict. Japan is and will be a part of other world tensions and/or alliances. As an Asiatic power, Japan is bound to be more concerned with Asiatic than with Occidental power relations. It may be granted that the problems of the West are of equal importance. But because of her industrial and cultural expansion, and her past and/or present imperialistic expansion, the West is more involved in the affairs of the East than the East is involved in the affairs of the Occident. This is true whether the West approaches Asia in the manner of the old exploitative imperialism, or in the supposedly different spirit of the Point Four program.

It is even arguable that the mighty forces which are stirring on the Asiatic mainland are more basic than the great Soviet-American-led struggle. Some of these forces were listed earlier as: the rise of nationalism; the struggle of the peasant for land; the pressure of population; and the revolt of Asia against Western imperialism. These forces may be inadequately epitomized as the rise of the underdogs of Asia. It is conceivable that the outcome of the Soviet-American cold or hot war may hinge upon the degree to which one or the other of the two great aggregates of power exploits or cooperates with the awakened masses of Asia. The leaders of each aggregate declare that they have the best interests of those masses at heart. They accuse their opposite numbers of having the selfish intention to exploit them. Momentarily either power system may win just because it controls more powerful atomic or bacterial weapons. But unless those weapons destroy both power systems and civilization with them, the military victory will not determine the issues involved. Or for a bit longer period either power system might win by exploiting rather than cooperating with the awakening people before their eyes are fully open. Its propaganda may fool the masses as to where their best interests lie. The power of leaders and interests to fool the people is, in spite of the spread of education, perhaps more evident today than in Abraham Lincoln's time. But if Lincoln was right — if you can't fool all the people all the time — the ultimate prize in the ideological struggle will be awarded on merit. Hydrogen bombs do not determine the value of ideas.

The treaty of peace with Japan is significant as it aligns her with the American and dominantly Occidental power system. It asks Japan to think and act as an Occidental rather than as an Oriental. Japan belongs rather in an Asiatic system. Japan is, however, not unaccustomed to the appeal of the West. Since the visit of Admiral Perry Japan has "gone West" with remarkable speed. If all Asia is to go Western, Japan, under American sponsorship, could help lead that trend. The rise of

the underdog in Asia, like the earlier partial westernization of Japan, may mean that the East will incorporate the "culture of modern industrialism." But Asia could do this within the framework of an economic system of "relative free enterprise" or of "relative collectivism," both of which are materialistic. For these systems are relatives, not absolutes. Nor is Asia's choice between complete Orientalism or complete Occidentalism. An American philosopher, Northrup, has suggested some integration of the two. But Asia has a choice between continued subordination to Western imperialism — whether Russian, British, or even American — and independence. The potential power of Asia's millions is so great that it may be decisive in determining the outcome of the currently dominant Soviet-American conflict. If either America or Soviet Russia becomes accepted as the real proponent of the rise of these peoples she will receive the support of a billion Asiatics. Failing this, if China could escape from her somewhat unnatural alliance with Russia and cooperate with India, is it not conceivable that a third force might develop and prevent the armed clash of the American and Soviet-led power systems?

The Japanese treaty aligns Japan on one side of a contest far more important than the remains of World War II issues which the treaty is supposed to settle. Still more important, it seems, is the conflict which we have oversimplified by calling it the rise of the masses of Asia. Some idealist once said: "I do not know what Americanism is, if it is not a prejudice in favor of the underdog." Be that as it may, is not the essence of democracy the rise to power of the common people — itself a great and precarious experiment? At any rate the power generated by their uprising seems to be tremendous. The future of the Japanese treaty, the future of Japan, the outcome of the current East-West conflict, seem to depend not a little on their relationship to this deeper force. So viewed, the treaty itself is relatively insignificant.

This article has perhaps implied criticism of certain American policies — at least of some of those of the past. That implied criticism has not been along the lines of the controversy between the two major political parties. In some degree it suggests the views of such men as Nehru in India and of Supreme Court Justice Douglas. Even those who make such criticisms of past policies might consistently support the current armament program. They might argue that it is too late to change policies. They might feel that the time is past when we may, for example, wean Communist China away from dependence upon Soviet Russia through recognition, through admission to UN, or through policies more clearly directed toward the solution of the problems of her common people. Any policy change implied in the present article would most obviously be concerned primarily with long-time rather than immediate programs. Yet it is arguable that such policy changes are defensible from the purely military viewpoint also: that to stop Soviet Russia we must win over the masses of Asia. It is one of the tragedies of the current world crisis that men equally concerned with both American defense and world peace may sincerely differ on immediate programs.

Present Status of the Fair Trade Laws

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THE SO-CALLED state fair trade laws, laws which legalize agreements made between a producer or distributor and a retailer of products of such producer or distributor whereby the retailer agrees to sell only at certain prices, have been enacted in all of the forty-eight states except Missouri, Texas, and Vermont.

These laws require generally that the product be one which bears, or the label or container of which bears, the trademark, brand, or name of the producer or distributor. It must be an article in free and open competition with commodities of the same general class produced or distributed by others. The agreements legalized must be agreements prescribing prices for resale — thus, the product must be one sold which is to be sold again by the buyer. The product must be a finished article, not requiring any further manufacturing or processing before being resold.

These laws also provide that, where a producer or a distributor of a product has entered into a retail price maintenance contract with any one retailer, the prices stipulated are binding upon other retailers of that state having notice thereof, whether they have signed such a contract or not. This provision generally reads:

"Wilfully and knowingly advertising, offering for sale or selling any commodity at less than the price stipulated . . . whether the person so advertising, offering for sale or selling is or is not a party to such contract, is unfair competition and is actionable at the suit of any person damaged thereby." (Illinois fair trade law.)

Thus, if a nonsigner with knowledge of a stipulated price sells at less than that price, he is considered to have committed the punishable offense of unfair competition. Accordingly, under these state laws, if a producer or distributor wishes to fix a price for the resale of his product within a state, he needs only to make a retail price maintenance contract with some one retailer of that state, and then the stipulated price will be just as binding upon the other retailers of his product in that state with knowledge as upon the one who did sign. He needs only to obtain such an agreement with one retailer and to give notice to the others.

In some states, the fair trade law exempts sales to libraries and sales to religious, educational, and charitable institutions. In such transactions, an immediate resale is not contemplated.

These laws generally permit sales at less than the stipulated price in the following cases:

1. If a reseller is, in good faith, discontinuing his business, or if he is discontinuing trading in that particular commodity, he may sell below the fixed price. There are, in some states, provisions which require such a reseller to give his vendor a reasonable opportunity to buy back the goods at the invoice price before he can sell to the public at a lower price.

2. Sales under court procedure are generally excepted.

3. If the product has been damaged, the reseller may sell at a lower price if notice of the damage has been given to the public.

A reseller can also sell below the prescribed price, if he does so without knowledge of that price.

The first state fair trade law was that enacted in California in 1931. This law did not contain any provision applying a retail price-fixing agreement to retailers who had not signed such a contract. The California legislature amended that law in 1933, adding a nonsigner provision. By the end of the year 1937, 28 states had enacted fair trade laws.

But, such price-fixing contracts between a producer or distributor and a retailer of his products were held to be invalid in interstate commerce under the 1890 Sherman Act. Thus, contracts legalized by any state law could be applied only to transactions in intrastate commerce within that state.

In 1937, Congress passed the Miller-Tydings Law, which amended section 1 of the Sherman Act by adding to the provision prohibiting contracts, combinations, or conspiracies in restraint of trade in interstate commerce a proviso reading:

"Nothing herein contained shall render illegal, contracts or agreements prescribing minimum prices for the resale of a commodity which bears, or the label or container of which bears, the trademark, brand or name of the producer or distributor of such commodity and which is in free and open competition with commodities of the same general class produced or distributed by others when such contracts or agreements are lawful as applied to intrastate transactions, under any statute, law or public policy now or hereafter in effect in any state . . . in which such resale is made or to which the commodity is to be transported for such resale. . . ."

Thus the Miller-Tydings Law made contracts or agreements fixing minimum resale prices in interstate commerce lawful where such contracts or agreements were legal in intrastate commerce under local law. But the Act made no express reference to provisions in the state fair trade laws which forced a stipulated price upon the nonsigner.

In May, 1951, the United States Supreme Court handed down its decision in the case of *Schwegmann Bros.* v. *Calvert Distillers Corporation.*

Here, two corporations, distributors of gin and whiskey, one in Maryland, the other in Delaware, had entered into contracts with some of the retailers of their products in Louisiana, whereby the retailers had agreed to maintain certain uniform resale prices for their products. Louisiana had a state fair trade law with the usual nonsigner provision. Schwegmann Bros., retailers of New Orleans, who had not entered such a resale price agreement, sold products of these distributors at cut-rate prices. The distributors obtained an injunction in the District Court. The decision granting the injunction was affirmed by the Circuit Court of Appeals, and Schwegmann Bros. appealed to the United States Supreme Court.

Thus, the question was finally before the Supreme Court whether a resale price fixed by agreement between a distributor and a retailer who had signed was to be observed in interstate com-

merce by a nonsigner retailer, one who had not entered into the retail price maintenance contract.

The United States Supreme Court by a vote of 6-3 held that Schwegmann Bros. were not bound by the stipulated prices and reversed the decisions of the two lower courts.

The majority of the Court, quoting the text of the Miller-Tydings proviso, pointed out that what was legalized were *contracts* or *agreements,* that *contracts* or *agreements* must contemplate voluntary action, and, hence, that the only persons bound to observe a stipulated price were those who had entered into such a contract or agreement. The majority thought that if Congress had intended to force a retail price agreement upon a nonsigner it would have included such a provision in the Miller-Tydings Act. The majority opinion was given by Justice Douglas.

Justice Frankfurter wrote a dissenting opinion, in which Justice Black and Justice Burton joined. He pointed out that the 1931 California fair trade law had proved inoperative in its lack of a nonsigner clause and that the legislature of that state had added a nonsigner provision at its next regular session. And that, in 1937, when the Miller-Tydings Law was enacted by Congress, 28 of the states had enacted fair trade laws each with a nonsigner clause. Hence, he contended that Congress must have intended to legalize retail price agreements not merely as between the parties, but that the provisions thereof were to be applied to a nonsigner. He would sustain the injunction.

The decision of the Supreme Court does not render illegal a price-fixing contract entered into in intrastate commerce — that is, one between a producer or distributor and a retailer of the same state. It does not render illegal such a contract in interstate commerce as between the parties thereto. But it does hold that such a contract in interstate commerce is not binding upon a retailer unless he has entered into the contract.

Here, it may be suggested that a reliable estimate made this year of the volume of the business in price-fixed goods placed a year's total up in the billions of dollars and at about five percent of all sales at retail.

Merchandise lines in which price-fixed articles may be found include drugs, cosmetics, television and radio sets, beverages, electrical and other appliances, typewriters, photographic goods, watches, clocks, jewelry, books, beds and bedding, fountain pens, pencils, tobacco, men's clothing, and a variety of other commodities. A few items in food and women's apparel lines are price-fixed.

The decision was followed by what appeared at first to be a real epidemic of price cutting on fair trade goods in some stores of the East. A large retail store in New York City cut prices on 5,978 price-fixed items in one day. Other large stores followed suit. Further reductions in prices were made. This movement spread in a limited way to other cities. But, except in New York and a few other cities, there was but little price cutting and then by only a few retailers and on but a few items. About 70 percent of the price cutting by volume was confined to stores of three cities. The price war subsided in two to three weeks. After the initial

splurge, it has been very much a case of all "holding the line."

Nevertheless, the fair trade advocate has reason to be concerned about the future. Many suggestions have been made as to how the effect of the decision can be nullified. But, other than by amending the Miller-Tydings Act to make the provisions of a price maintenance contract apply to the nonsigner, none of the suggestions made can offer much comfort to the advocate.

A distillery company, one of the parties to the Supreme Court case, has established distributor corporations, each with a warehouse, in some of the states where its products are being sold. Presumably, it would create at least one such corporation in every state where its products are being handled, excepting where prices are established by some state agency or where sales of its products are being made only in state stores. Having sales of its products to a retailer made only by a distributor corporation of the state of the retailer, it will probably contend that the sale to any retailer is purely a local affair — not one in interstate commerce — and, hence, that the state fair trade act with its nonsigner provisions should apply to all its price maintenance contracts.

However, a court could find that the subsidiary distributor corporation was purely an agent, that sales through any distributor corporation were in fact sales by the home company, and that interstate commerce was involved in transactions with any retailer who was in business in a state other than the state of the home company. And there have been many decisions of the Federal courts holding that a company was engaged in interstate commerce in cases where only a mere fraction of its services or products went to parties outside its state.

If a producer sells his products through a retailer to whom he has granted exclusive rights over a certain area, and the producer does not attempt to own or control that retailer's business, except in a limited way, the question of agency may not be raised. But what has proved satisfactory in the automobile field will not be so satisfactory in all other lines. The exclusive-dealer plan would not be so usable for the producer of small items, each selling for a small amount and requiring little, if any, servicing, and when the producer depends upon the sale of a large number of units — otherwise it would have been adopted in such lines more than it has.

Where a producer sells his products through distributors and those distributors handle products of other producers, competing or not competing, goods not price-fixed as well as goods price-fixed, the question of agency probably will not be raised. But where the distributor is more and more an independent party, he will probably not be faithful to every condition fixed by a producer. If a producer imposes on his distributor the requirement that the latter must obtain from each retailer to whom he sells a contract stipulating retail prices, there may be some sales resistance on the part of some distributors who might decide that it would be more convenient to them not to handle this producer's products at all, or unless a greater return was possible.

A lower volume of sales could be expected.

Even though a producer did obtain from each of his distributors agreements that they would insist upon retail price manitenance contracts from each of their retailers, there would still be the problem of policing — of seeing that distributors did not sell to nonsigner retailers and that signer retailers did not do the same. A large New York store, a nonsigner, which cut prices in the recent price war on a product on which there was a stipulated retail price, was denied new stock by the manufacturer, but the store was able to keep its shelves filled with the same product of that manufacturer obtained from sources unknown, and to continue to sell at prices lower than the fixed price. The greater the number of distributors and retailers handling the products of a producer, the more difficult the task of policing would be. It would seem that the problem would be impossible where hundreds of distributors and thousands of retailers were involved.

If a producer plans to obtain retail price maintenance agreements direct from retailers who sell his products, the same difficulties will arise. If he has his product sold through, say 100,000 retailers, and he insists upon retail price contracts from each of them, he will find some retailers who will refuse to handle his product, preferring to sell the goods of a competitor who is not insisting upon such agreements or not to handle that line at all. A lower volume of sales could be expected. There would be also the problem of policing — of seeing that his signer retailers observed their contracts to maintain the fixed price and that they did not supply nonsigner retailers with his goods.

A large New York retailer concern which took part in the price war which followed the decision of the Supreme Court, cutting prices on hundreds of price-fixed items, saw fit to enter a price maintenance agreement with a manufacturer of beds and mattresses shortly thereafter. Apparently, the company was willing to enter a fair trade agreement when it was necessary to get the goods it wanted, and would not enter such a contract if it could get the goods without such an agreement, or if it preferred to handle a competitor's goods or not to handle that line of items at all.

The manufacturer of beds and mattresses mentioned had been selling through only a few distributors and was in a better position to exact a retail price maintenance contract. But that would not be true of a producer whose product is being handled through hundreds or thousands of distributors.

Better business bureaus and like organizations have done much to abolish business practices which they considered undesirable. It is questionable what they can and will do in this case where there will be agitation on both sides. Any action they might take would lack the satisfactory compulsory element which a law would possess. There might be a lack of uniformity due to lack of interest and, especially, where the price cutter is an influential member of the organization.

There might be the question of legality of any procedure, if the result is that some retailers can obtain a producer's products and that other re-

ailers cannot — more particularly if ction is taken in concert with others. The Sherman Act prohibits contracts, combinations, or conspiracies in restraint of trade among the states, and he proviso of the Miller-Tydings Act legalizes only "vertical" agreements, those between a producer or distributor and a retailer of his products fixing minimum retail prices. The Federal law does not legalize "horizontal" agreements, such as agreements between producers, agreements between distributors, or agreements between retailers, where the effect is to restrain trade in interstate commerce.

The state fair trade laws, likewise, legalize "vertical" agreements — those between producers or distributors and their retailers stipulating retail prices. These laws also do not make valid "horizontal" agreements, those in which the parties are on the same business level, if the effect thereof is to restrain commerce.

Thus, an agreement between two or more producers, or between two or more distributors, and so on, to boycott a price-cutting retailer or to coerce others to do so, or to force a price-cutting retailer to enter a price maintenance contract would be illegal. It is illegal for competitors to act in concert in restraint of trade.

The only solution satisfactory to the fair trade advocate would be to have Congress amend the Miller-Tydings Act so as to make a retail price maintenance contract entered into by one retailer binding upon other retailers who handle the same product of the same producer or distributor within the same state.

But those who think that it will be easy to persuade Congress to enact such an amendment could well consider the situation which existed from 1930 through 1937, the period from the enactment of the first state fair trade law by California until 28 states had passed such laws and until Congress had passed the Miller-Tydings Act. Those were days when the prevalent agitation was for higher prices (which the opponents of the fair trade laws said would be the result of their adoption) and when the legislator was ready to favor almost anything which bore some element of promise of raising prices.

Will that same legislator be willing to support an extension of fair trade agreements in these days of inflation when his voters are complaining that prices are too high? The advocate could also recall that the Miller-Tydings Act was passed as a "rider" to an essential tax bill after it had failed of passage when presented alone.

Bills have been introduced in Congress which would make such an amendment. Bills have also been introduced which would repeal the Miller-Tydings Act. We may expect that the whole question of retail price maintenance will be reexamined both by Congress and the state legislatures.

Union-Management Relations and Technical Change: A Case Study

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One of the impressive characteristics of the American economy has been a steady and continuing increase in industrial productivity. That production per man-hour will pursue this upward course has become a normal expectation. In times of national emergency, such as the present, particular stress is placed upon the need for stepping up this pace even more to meet defense needs and to avert inflation.

Much of this improvement in our industrial efficiency stems from technical changes constantly taking place in our mills, shops, and factories. The installation of a machine, the setting of revised work standards, the modification of work assignments, the introduction of a new manufacturing process — to mention but a few of the many types of technical change — constitute the detail of this process. Yet, while they form the sinews for augmenting our economic strength, these changes have also often been the occasion for engendering human conflict at the shop level. It is upon this aspect of our technological progress that this article focuses.

In the shop it has been common experience whenever the prospect of technical change looms to witness a good deal of pulling, hauling, and balking among workers and, for that matter, among members of management itself. In the extreme, there may be outright refusals to accept a change or, even if there is no overt resistance, morale and productivity may fall far below the blueprinted expectations. The installation of technical change often is accompanied by a tune of trepidation and disharmony in human relationships.

Human Impact of Technical Change

Disruptive aspects of technical change are hardly a new phenomenon. The earliest days of the industrial revolution were marked by revolts against the machine, culminating at times in primitive physical assaults upon the very equipment itself. Our cultural development since that time has seen the growth of a common acceptance of technological innovation in industry and such outbursts of frustration are now rare indeed; nevertheless, the problem of aggressive reaction to technical change has remained with us. A notable recent example that received widespread publicity was the "speed-up" strike at the Ford Motor Company in 1949.

Associated with evidences of resistance to technical change have been the allegedly widespread practices and policies of labor unions which obstruct industrial innovation. A number of earlier studies of trade unionism have emphasized the conservative and reactionary position of these organizations in the matter of changing

echniques of production.[1] Moreover, a general presumption has been that, with the increasing practice of collective bargaining since 1935, unions more often than not have made even more widespread these restrictive practices. Undoubtedly, this is one facet of union-management relationships. However, it remains to be explored with any degree of thoroughness whether the existence of these institutional arrangements does not in itself possess a more positive side with regard to technical change installation. Actually, there is little proof that on balance unions have served to slow down the rate of introducing and exploiting technical innovation.[2] Moreover, there is some basis to believe that maturing union-management relationships may facilitate the process of industrial change at the plant level[3] when comparison is made with observations of worker behavior in unorganized situations.[4] Since this is a hypothesis of considerable importance for evaluating the course of our industrial progress, the case described below is presented as a test, though hardly a conclusive one, of this contention.

Before proceeding to the case study, it is appropriate to indicate the roots of human dissatisfaction associated with technical change in industry. The obvious explanations, of course, run in terms of workers' fears of displacement, unemployment, reduced earnings, deskillization, and mental and physical strain. The eventuality of any of these results is viewed as catastrophic in the worker's mind, as indeed they would be for anybody in a similar set of circumstances. No matter what long-run predictions economists might make about rising employment and living standards, these are but pious platitudes that offer little hope for relieving an immediate situation. On these grounds alone, resistance to change finds a fertile seedbed.

However, this is only part of the story. Procrastination may accompany the installation of technical change even though it has been made abundantly clear that economic benefits will be substantial and dire threats to economic security will not exist.[5] For there may be psychological and sociological, as well as economic, implications that serve to thwart adoption of the innovation. Prestige, status, and other symbols of satisfying social relationships may be at stake. Usually, these potential "losses" are rarely made explicit, for they are difficult matters to talk about even if people are able as well as willing to discuss them. Thus, the promise of increased earnings, steadier employment, upgrading in the shop hierarchy of jobs, and so on may fail "to take the sting off." Frustration and

[1] See, for example, Sumner H. Slichter, *Union Policies and Industrial Management* (Washington: The Brookings Institution, 1941), Chapters VII-IX.

[2] For another view, see Gordon F. Bloom, "Union Wage Pressure and Technological Discovery," *American Economic Review,* Vol. XLI, September, 1951, no. 4, p. 617.

[3] Benjamin M. Selekman and Sylvia K. Selekman, "Productivity — and Collective Bargaining," *Harvard Business Review,* Vol. XXVII, March, 1950, no. 2, pp. 127-144.

[4] Stanley B. Mathewson, *Restriction of Output Among Unorganized Workers* (New York: Viking Press, 1931).

[5] Benjamin M. Selekman, *Labor Relations and Human Relations* (New York: McGraw-Hill, 1947), p. 111.

fear may be easily aroused by seemingly small threats to personal and group security (although, it should be pointed out, they appear enormously large to those feeling the frustration and fear).

Such frustrations may lead sooner or later to some form of aggression, ranging from a forthright refusal to work to a low degree of acceptance of the change. The latter may take the form of regression exhibited in states of low morale and meager productivity. All these reactions, of course, may be related to a whole set of neurotic anxieties that have been accentuated in our industrial culture. Disintegration of community and family life, as they used to be known, has been a notable illustration.

To summarize, changes in the techniques of production may disturb the social equilibrium. Thus disturbed, the social system of any group, whether it be a primary face-to-face one or a more formal entity, will undergo adjustments by its members to correct for the disturbances. The resulting "adaptive human behavior" will consist of seeking out those channels of human interaction through which it has been customary to carry on activity.[6] Some of these customary channels may be formally "institutionalized," as, for example, a well-developed grievance procedure, However, if the attempt to utilize customary channels fails, adaptive behavior may take the form of resorting to the seemingly unusual. Thus, negotiation, verbal persuasion, the use of tribunals, and the like may be replaced by strikes, sit-downs, lockouts, and similar actions.

[6] E. Wight Bakke, *Adaptive Human Behavior* (New Haven: Yale University Labor and Management Center, 1951).

Collective Bargaining — Hindrance or Help?

The first clue to implementing change thus lies in recognizing those instruments and procedures that may be utilized for keeping human behavior within customary bounds. The search for this clue, of course, is predicated upon the desirability of minimizing human conflict within a democratic society. Thus with collective bargaining having become a widespread practice (and encouraged by law), its processes should be subject to this scrutiny.

Hardly explored have been the contributions of collective bargaining in maintaining and establishing channels for desired human behavior. To explore them, furthermore, is a task of no small proportions. Painstaking case-by-case research is required, with the need to keep clearly in mind the environmental and internal elements that differentiate one union-management relationship from another. It is no wonder, in terms of the greatness of this task, that, although the bases of human resistance to industrial change are readily recognized, the remedy for its mitigation has remained highly elusive. As Selekman has pointed out, "it requires not too much to say that we face here one of the most difficult and least explored areas of human relations, where no one is sure of his ground. What we need now is nothing more nor less than to recognize the problem, to approach it with humility, and to probe for helpful clues."[7]

[7] Selekman, *op. cit.*, p. 111.

A Case History

Let us now turn to the case study, undertaken by the writer, of the experiences of a firm which we shall call the X Company.[8] Located in a small mill town, the X Company plant had a history stretching back over one hundred years. It was engaged in the production of worsted cloth, and like many other mills in this branch of the textile industry, had for many years failed to take advantage of newly developed production techniques. However, at the end of World War II new ownership took over the plant and undertook to install a series of plant-wide technical changes. In this attempt, the management found itself confronted with an uncooperative work force, a hostile community and, at first, a none-too-sympathetic local union. After an abortive incident that set back management's plans for modernizing the plant, the technical change program went forward during 1947 and 1948, following a series of union-management negotiations accompanying each of the changes installed. As a result of these joint deliberations, the modernization of the plant proceeded with little disturbance. In the end, without any increase in the size of the work force, production was increased by over 25 percent.

What elements in this case contributed to the enhancement of productivity when previous attempts to accomplish this without overt conflict seemed to face the insurmountable obstacle of resistance? How did the processes of collective bargaining facilitiate or hinder the implementation of the modernizing program? To answer these questions, let us first delve more deeply into the background and industrial setting of Company X.

[8] The author is indebted to the Social Science Research Council for the grant of funds that made possible this investigation.

The Industrial Setting

To understand the position of management in this industry, some knowledge of the economics of the industry is necessary. Most of the industry is concentrated in the northeast of the United States and comprises over 800 separate firms. However, despite geographic concentration and large numbers, mills differ considerably both in size and type of product manufactured. Moreover, four corporations have usually accounted for 25 percent of the total production and sales of the industry. Thus, in spite of the large numbers — which give the appearance of a highly competitive type of industry — a few large firms are predominant and set the pattern in a number of practices and policies for the remainder of the industry. On the other hand, in the product market, woolens and worsteds, despite a considerable degree of product differentiation, are faced with competition of other fibers such as cotton, rayon, and numerous synthetics which are proving to be suitable wool substitutes.

Another major characteristic of the market has been the close relationship between sales of wool goods and the volume of consumer expenditures. Woolens and worsteds characteristically evidence a lead-lag correlation with consumer income and, accordingly, their production volume usually drops before consumer incomes do and recovers only after consumer incomes

have turned up. They are highly postponable goods. On the other hand, in times of large military expenditures, the production of numerous mills may be assured. But, in general, the vicissitudes of the business cycle have accounted for a fairly large turnover in the industry, and the great bulk of the firms may be considered almost always to be "on the margin." Furthermore, seasonal marketing and production patterns, as well as unpredictable style changes, have added to the average mill's uncertainties about the future.

The average management can do little to meet these uncertainties and, accordingly, hesitates to make any large investment in technical changes even though striking technical advances have been common knowledge throughout the industry. Rather, so long as the productive facilities have met certain minimum standards, many companies have remained on a technological dead-center. When the great bulk of the competing firms in the industry were following this practice, a management had little to fear in terms of undue cost disadvantages arising from archaic techniques.

Nevertheless, when demand shrinks, woolen and worsted firms have been forced to adopt cost-cutting devices which would enable them to retain at least a share of the reduced market. The natural tendency has been to concentrate upon cutting down variable costs — in particular, labor costs. To improve a company's cost position for either the long or the short run, few firms have looked primarily to technical changes in the manufacturing process, but have leveled their sights upon reducing their labor requirements for the given methods of production.

This practice may be readily understood by examining the typical cost structure of a firm in the industry. The raw material, wool, usually has accounted for half of the total unit cost. But there is little opportunity to achieve savings here, for wool prices are determined in a world wool market, over which the average manufacturer has been able to exert almost no control. Furthermore, attempts to cut down on wool use and to eliminate waste have been costly. Indirect costs usually amount to between 10 and 20 percent of the total unit cost, and a large proportion is made up of fixed elements. Accordingly, the remaining cost element, labor, amounting to 25 or 35 percent, comes under the greatest scrutiny in cost-cutting drives. Thus, there have been attempts either to reduce wage rates or to increase workloads without increasing wage rates. Accordingly, the labels "stretch-out," "speed-up," and "sweatshop" have long been attached to the textile industry.

The nature of the costs in manufacturing textiles has meant that, over a long range of production, variable unit costs are fairly constant. As a result, manufacturers have tended either to produce to capacity or to shut down completely. For example, during the hectic days of 1932 and 1933, multiple-shift operations were very common. Attempting to produce to capacity furnishes another pressure to extend the work force even further. This possibility, moreover, is facilitated by the very nature of the manufacturing process and the jobs. Most jobs are machine-tending; that is, the large ma-

jority of the workers are hired to supervise equipment rather than to operate it. The principal duty is to prevent breakdowns in the machinery and materials. As a result, there is a strong temptation to assign more and more machines to the supervision of an individual employee, with the onus upon the worker to police his machines rather than upon management to see to it that the machinery is appropriately cared for and maintained to permit larger supervisory assignments. In this work setup, the foreman, or overseer as he is more appropriately called, has as his principal function the watching of the workers in performing their assignments. The suspicion, distrust, and "dirty" politics accompanying a situation of this sort have been natural results. Added to these factors is the fact that most of the jobs are unskilled. "Hands" can easily be replaced, and in many small mill towns women can be called upon to perform jobs men will not.

For these reasons, many mills in the industry have not felt compelled, until fairly recently, to keep abreast of latest technical developments. It was easier for a management "to let things ride." Moreover, worker resistance has been enhanced not only by fears of "stretch-outs" but also by widespread recognition that managements have had no great drive to install changes. Accordingly, if there was a move to install a new process, machine, or modification of equipment, workers in many cases have looked upon such an attempt as doubly suspicious.

Resistance to technical change was especially heightened during the depression with the large layoffs that were concentrated in the textile industry. Technological change, of course, constituted a further direct threat to the workers' economic security. The general textile strike in 1934 was in part a protest against such changes, leading, although abortively, to the N.R.A. Textile Code, which included some regulation of workloads and technical change displacements. In the wake of this upsurge or protest, for the first time large-scale unionism appeared in the industry, eventually culminating in the CIO Textile Workers Organizing Committee (TWOC-CIO) in 1937. Again, in part, these drives were aimed at halting the inroads of technical changes identified with the "stretch-out."

Growth of the Local Union

Against this industrial background the Company X mill operated during the 1930's. In addition, events in the X mill community should be mentioned as having an important bearing upon the later program of technical changes. In 1934, for the first time in the community's history, a union was successfully formed, and from the beginning this local enjoyed full support of the villagers. Since its founding, moreover, the villagers have routinely accepted union membership, automatically being expected to join, once they are employed at the mill.

The spontaneous development of the local union at the X mill was in part the result of the turbulent events of the depression but also arose out of local conditions. The X mill was situated in an old mill village and was the principal place of employment for the villagers, even though the community was located within a short commuting dis-

tance of a fairly large industrial center. The mill itself was of average size for the woolen and worsted industry, employing on the average about 500 workers. The village population, numbering about 2,000, were mainly of French-Canadian, Polish, and Irish descent. Many of the families had been in the community for several generations.

Before the TWOC-CIO came into existence, the organizing of wool workers had been exceedingly low.[9] Wool mills were considered among the least organizable areas of the industry. However, once unionism began to spread seriously in this branch of textiles after 1937, it became the most highly organized segment of the industry, with about 90 percent of the workers organized. Thus, unionizing the X mill was an exceptional event for that period.

Furthermore, the local union at the X mill relied little upon outside assistance to achieve organization. Local conditions contributed to this development. Although the social system of the village had been based on paternalism in the preceding years, there was absentee ownership and the mill manager was given rather complete authority in operating the plant. The manager, however, had been in the village for many years and was fully integrated in the life of the community. He was considered "one of the boys."

During the early trying days of the depression, however, this arrangement — which apparently had been considered satisfactory by the villagers — began to disintegrate. No longer could everyone in the community feel sure of working at the mill. The younger generation felt the brunt of the unemployment. Management was caught up in the drive to cut labor costs, and the overseers were given relatively free hands to pursue, by hook or crook, the least costly operations for their respective departments. What seemed to have been a coordinated social system had suddenly gone out of kilter. Villagers, who had looked upon themselves as enjoying a favorable relationship with the mill management, now found that management not only was failing to preserve this equilibrium but seemed to be taking steps to upset it even further. Thus, the villagers decided to take matters into their own hands.

The interesting thing about this development was the almost complete acquiescence of the mill manager. Obviously troubled himself about the breakdown in the usual relationships and lacking in imagination about how to remedy the situation, he seemed to welcome the formation of the local union, which now was providing leadership in the distraught community. Despite a few weak formal protests against this development, the manager soon afterward handed over the managerial function to the local union in an informal sense. No doubt, he hoped that the formation of the union would restore the tranquil equilibrium that the village had previously enjoyed. Since this backward-looking attitude took hold, the local union was com-

[9] For example, at the height of the post World War I organizing drive the A.F. of L. textile workers union succeeded in organizing 10 percent of all textile workers, the high point in this industry until the middle thirties, but only 3 percent of woolen and worsted workers. See R. R. R. Brooks, *United Textile Workers of America,* unpublished doctoral dissertation (New Haven: Yale University, 1935), pp. 54, 60.

mitted to a course of preventing change, particularly of a technical nature, that would threaten the system that was "saved."

Two other local union developments during the 1930's deserve mention. First was the growth of factionalism within the local. As soon as the manager abdicated his traditional functions and the local union officials virtually began to direct the work force, a struggle for power within the village ensued. The significance of this development for technical change at the mill was that each of the factions vied to assure avoidance of upsetting changes. For example, it was usual for one contending faction to claim that the other had "sold out to management." Over a period of several years the political balance swung back and forth, with each faction alternately holding office. On the other hand, it should be noted that this process itself actually represented a change in doing things in the village; however, this change, accomplished somewhat unconsciously, was generally acceptable since it involved wide participation and control.

A second development, which was to have fuller significance only after World War II, was the affiliation of the local union with the TWOC-CIO in 1937. When it was organized in 1934, the local had received a charter from the A.F. of L. textile workers union (UTWA-AFL), which joined forces with the CIO in 1937 to set up the TWOC. However, in 1939, when the TWOC-CIO became the TWUA-CIO and several dissenting locals withdrew to re-form the UTWA-AFL, the X local union remained with the CIO organization. These associations with a "parent" organization, however, did not represent a sacrifice of independence for the local. It was more a matter of convenient access to certain services and a general belief in the need for national organization that had prompted the local's affiliation. In fact, except for drawing upon the routine services of the national organizations, the local officials jealously guarded against any participation by national representatives in dealings with the Company X management.

However, for attempts to institute technical change, this local-national relationship was later to be of significance. From its inception, the TWOC-CIO (later the TWUA-CIO) held that the salvation of the wool goods industry lay in adopting advanced methods of production to safeguard the industry against competition and to avert large-scale disaster. The technological progress advocated by the national union, of course, included demands for protecting against layoffs and for sharing gains with the workers. In its early stages of development, the national union was hardly in a position to impose this policy upon the X mill local, except through a long educational process. But an opoprtunity came after World War II, when the Company X management proposed its technical change program.

World War II Developments — A Lease on Life

World War II witnessed three significant developments which formed the basis for accepting technical change at the X mill. First, a high volume of wartime production virtually saved the mill from liquidation. An extra lease

on life was given to the establishment after almost a decade of annual losses imposed by dull markets, relatively high labor costs, a stagnant technology, and unimaginative management. With the mill producing at capacity, the firm was able to recoup some of these losses.

A second development concerned the union. Factionalism subsided, although the "outs" were not dead and buried by any means. It was a period of stability; patriotic appeals turned the villagers' thoughts toward production, and there was less concern among the union membership about which faction would provide the greatest security. Accordingly, throughout the five-year period 1941-45, the incumbent local union officials became entrenched. Still another aspect of the union situation lay in the growing influence of the national organization. During the war, organizing of wool workers was virtually completed and bargaining assumed a "follow-the-leader" pattern, in which agreements concluded with the major corporations in the industry became the pattern for the rest of them.

Finally, in 1943 ownership of the mill changed hands. At this time an enterprising group came into possession of the property and took a direct interest in the mill's operations. The new ownership held that to make the mill profitable in the postwar period there must be modernization at the first possible opportunity. However, for the duration of the war itself, there were no immediate attempts to effect technical changes. Rather, the owners concentrated upon bringing new management personnel to the mill. These were younger and more technically trained men brought in from the outside. At an earlier time, such steps probably would have caused considerable concern among the villagers, who were suspicious of newcomers. However, it appears that under wartime conditions the managerial changes were acceptable to the work force on the whole. Probably a major reason for this acceptance was that the local union officials by that time did feel secure in their positions and saw little reason to challenge the company on this score.

Formulating a Technical Change Program

Once the war's end appeared fairly certain, the new management seized the first opportunity to undertake improvements in the technical process. However, even though the new ownership had come in on the assumption that it would make technical changes, no precise plans had been drawn up. This was understandable in view of the uncertainty of the war's duration, lack of available equipment, preoccupation with day-to-day production problems, and efforts to integrate the new management personnel. However, soon after V-E day, in attempting to iron out a grievance over piece rates that arose in the mending room, management unfolded a plan to the union for revamping the work-flow in that department, reassigning work duties, and revising base and piece rates.

It soon became apparent that the plan for modernizing the mending operations had not been carefully prepared. The proposed change not only took the workers involved by surprise; but old fears of technical change immediately welled up, and management, despite the union-management

tranquillity of the war years, found itself confronted with resistance to change that had been smouldering since the thirties.

Nevertheless, the initial move to modernize the mill was not doomed to failure. In the first place, management did not insist upon exercising any "prerogatives." To do so, it realized, would merely precipitate further bitterness and resistance. Instead, it was willing to entertain suggestions and objections raised by the workers and the union. In the second place, the union did not take the flat position of refusing to permit changes in the department, but specifically pointed out inadequacies in management's proposal. It raised such questions as: How many workers would be required under the new system? What would be the effect on steadiness of work? Which jobs would be eliminated? Which workers would be laid off? What would be the expected work-pace? What earnings could the workers expect to achieve? How would the department be physically rearranged?

Negotiations on this proposal and two more that were to follow within a few months were crucial for formulating effective procedures for handling changes throughout the mill. What ensued in the mending case was a series of negotiations in which ample participation was afforded to the workers directly or indirectly affected. In the end (some five months later), after a series of trial operations, conditions were agreed upon which were satisfactory to the management, the union, and the rank-and-file workers. Each detail of the proposal was worked out in negotiation; gripes, complaints, and grievances were aired; neither party insisted that engineering exactitudes were sacred, but each recognized that human judgments, often guesses, were involved in many of the calculations. At times, it appeared that the negotiations would collapse over some small detail, only to be saved by further discussion and persuasive argument by the negotiators. This was the deliberative process at its best.

It may be queried at this point why the local union, with resistance to change as one of its bases of organization, agreed to consider the modernization of the mill. At least two factors may explain this change in attitude. First, the local officials were fully aware of the weak competitive position of the mill, although this was hardly enough to bring about full support of technical change. Of greater importance was that they felt reasonably secure in their leadership positions and thought that the local membership had entrusted them with a fairly wide latitude of judgment. Finally, on this point, the change was not imposed, even though instigated, by management. With the long series of negotiations, the general feeling was that the changes had come as much from the community itself as from management.

The second factor was the growing influence of the national union. Progressive in its outlook toward technical change, the national had encouraged management to modernize the plant. This encouragement received greater support at the local level than would have been the case before the war. For during the intervening years, the national, by organizing the large bulk of the industry, by bringing union influ-

ence to bear upon national labor policy, and by developing expertness in the ins-and-outs of industrial relations, had come to represent a force which provided protection for the local union and its membership against a seemingly hostile environment in general. This metamorphosis in the role of the national had provided a more effective function than that which the local union exercised by itself prior to the war. For until that time the local, contrived in independence and relative isolation, had been about the only channel for letting the voice of the villagers be directly heard. Now the local alone needed no longer to serve this vital function.

The mere settlement of the mending proposal, however, was not enough to signal a rush to install long-overdue technical changes in the mill. What it represented was a breaking-through of the crust of resistance and a bare outline for procedural approaches to the problem. And, in fact, it was not long before management found it had burned its fingers by moving too rapidly.

When by late summer of 1945 it was recognized that the mending room negotiations would lead to an amicable settlement, management turned attention to two other departments. The first involved the installation of a new type of automatic equipment which would displace certain highly skilled hand operations (among the few in the plant). Unlike the mending room case, where the question of worker displacement was a minor one, this proposal meant elimination of some of the most senior workers at the mill. In putting forth its plan, management offered to transfer and retrain these men for comparably paid jobs in other departments. But the men involved and the union, both at the local and national level, balked at the proposal. The union officials raised doubts about the level of expected production, work assignments, and work-flow. However, they offered a counterproposal which would lessen the shock of displacement. Then the differences were bargained out in much the same manner experienced for the mending proposal. Concessions were made by both parties, and a settlement was reached within a few weeks.

Probably the most significant aspect of these negotiations was an implicit recognition by both the union and management of a need to lessen the impact upon the relationships of the men within the department and between this department and other departments. For example, in its original proposal management contended that most of the new jobs could be manned by unskilled workers. The union, however, insisted that the incumbent workers assume these jobs without any reduction in pay. The issue was then compromised by retaining some of the men on the new jobs. Also, the union rejected a proposal to install a differentiating set of bonus rates among the jobs retained by the older men. The management agreed to this when it realized that earnings had always been about the same for these workers. The bonus was placed on a group basis, with all of the workers from the old classifications sharing alike, despite differences in their job specifications.

At about the same time, management also proposed forthright increases in work assignments for the spinners and

twisters without any wage increases. When the union insisted upon a share in the savings, management refused to compromise, claiming that it was merely trying to raise workloads to competitive levels. In its opinion, there were no arbitrary engineering data that needed to be negotiated. Since workload changes were arbitrable under the general agreement, the issue went to arbitration. However, the arbitrator's decision failed to settle the problem. Apparently realizing that an imposed judgment would not bring about harmonious accommodation of the parties, the arbitrator directed the negotiators to carry on additional trials and to continue to bargain certain crucial points. The negotiators followed the edict, but no agreement was reached. At the end of the trial period, management held that the trials should continue until an agreement was attained; but the union and workers involved insisted that the original arrangements be restored pending further negotiation. Both sides became adamant, and that Christmas saw the mill in the stranglehold of a strike and lockout. The seemingly successful approach that had achieved agreement in the two previous instances of change had suddenly come to grief.

How was it that this impasse had occurred? Undoubtedly, the nature of the change had much to do with it. The proposal was simply to increase workloads without any share in the labor-cost savings going to the workers. Despite the argument of keeping abreast of competition, the proposal smacked too much of the earlier "stretch-out" days for the workers to accept. However, there was a difference between this attempt to increase workloads and an attempt made in pre-union days. It had been subjected to a deliberative process including an agreed-upon resort to an outside party for decision. The position of the arbitrator himself in declining to put forth any clear-cut judgment was an indication of the basic difficulties. With three major change proposals coming within a few months, the work force saw itself being subjected to a series of traumatic experiences with little breathing space for recovery in between. Resistance which might have been mitigated in other circumstances suddenly welled up. The arbitrator apparently recognized that in this situation further mutual attempts were needed to work out basic procedures for handling technical change problems generally rather than a specific decision. The stoppage itself signalled this lack and in this sense probably served a useful purpose.

The direct outcome of the shutdown was a stocktaking process on management's part to devise a more precise plan for introducing plant-wide technical changes. After a compromise settlement was reached for the spinners and twisters — largely at the instigation of state mediators and with an interpretation given by the arbitrator of his decision — management began a systematic examination of its plan. The first step was to engage a firm of consulting engineers to make a thorough survey of the plant's condition and to recommend improvements in existing methods of operation. This step was undertaken with advance notice given to the union and the work force, from whom there were no serious objections.

When the engineers had completed their preliminary work of describing each job and making some suggestions for eliminating duplications and overlapping of functions, management then consulted closely with the union on the approach it wished to follow for the making of technical changes. First, management proposed that the existing equipment be overhauled to permit greatest efficiency. Second, it asked the union to aid in formulating a job evaluation program which would serve as a basis for setting wage relationships. Third, it proposed to install wage incentives to compensate for "extraordinary" work effort at production standards to be determined. If these steps were agreed to, management then proposed to proceed with technical changes, using the job evaluation program and production standard studies as the means for meeting wage and workload problems.

The attitude of the union officials toward this plan was "to wait and see." Late in the spring of 1946, management placed the job evaluation scheme before the local union for final approval. Informally, it had been drawn up in consultation between the engineers, union officials, and various key workers, so that management felt fairly confident that it would be accepted. However, at this point, the local union officials hesitated to give final approval, but turned to the national union research department for advice.

When the national research office examined the proposals, it advised complete rejection on the grounds that the plan was filled with arbitrary judgments of management, that it was not clear how the evaluations were really determined, and that, in principle, acceptance would mean the end of bargaining over job values. Research also warned against the probability that the plan would upset established wage relationships at the mill and conflict with the existing wage pattern in the industry.

Although management attempted to answer these objections, it did admit that the job evaluation plan was highly arbitrary in its nature and agreed to throw it out entirely. There were at least two reasons for this concession by management. First, to bicker over a job evaluation plan would delay the installation of what it primarily wanted — technical changes. Second, whether there was a formal plan or not, negotiations would have to settle relative job evaluations, and the task still remained for all parties to agree upon production standards. The major difference made by the union's rejection was that management was less free to proceed on its own accord to install changes. Each proposal for changes had to be examined separately without the basic guides that management had proposed.

To replace the job evaluation plan, it was mutually recognized that some set of principles had to be agreed upon to guide the settlement of issues arising in connection with any specific change proposed. Actually, this was what management had been groping for. And this was what the union and the workers had been complaining about when the stoppage occurred. The job evaluation plan was just not good enough because it did not deal adequately with the issues with which the parties were fundamentally concerned — an adequate process for the joint determina-

tion of standards and conditions of work.

Then in effect, the union, particularly the research office, took the initiative in suggesting principles for guiding change installation. In addition to demanding full information on job descriptions and cost conditions, and advance discussion of all proposals, the union held that the following points should be observed: (1) a wage-rate increase for every increase in workload or production standard; (2) the right of the union to reject any proposal resulting in worker displacement; (3) the granting of severance pay to displaced workers if a proposal involving displacement was accepted; (4) the right of the union to challenge any engineering data or other facts alleged by management to support a proposal; (5) the right of the union to reject any engineering or management concept of a "fair day's" or "normal day's" work; (6) the payment of average hourly earnings rather than base rates whenever working conditions deviated by more than a small percentage from agreed-upon specifications; (7) the use of trial periods and votes of acceptance of proposals before any change was permanently installed; (8) the option to discontinue wage incentives accepted for a given change when later changes were installed; and (9) independent negotiations of each proposal.

That management took no issue with these stipulations, but anxiously agreed to them, indicated its strong desire to get on with its program and, at the same time, a recognition that the stipulations embodied the very issues that could plague any specific negotiation. By making these issues explicit, it was possible to deal with them effectively. Moreover, they appeared to allow considerable room for negotiating and bargaining. The only advance financial commitment — to be worked out in negotiation in detail — was the provision for severance pay. Inasmuch as management contemplated an expansion in its capacity, it felt that this provision would not be too burdensome, since those displaced could be rapidly reemployed on other jobs.

Shortly thereafter a severance pay provision was satisfactorily negotiated. The management now felt free to turn to specific technical change proposals. The long-sought preliminaries were out of the way. Two issues, however, did cause some delay at the outset. First, there was disagreement within the local union over whether all the changes should be negotiated first and then simultaneously introduced, or whether the installations should be made as the negotiations proceeded individually. The research office agreed with management on the latter approach on the grounds that the changes could be made more orderly and each change could profit by the experience of the preceding ones. This view prevailed. The second issue concerned the amount of cost and financial data the company should make available. Management held that it should include only those data pertaining directly to a proposal; the union insisted that the total financial picture of the company, in its most intimate detail, should be disclosed. Conceding to the contention that such information was the private property of the stockholders, after some discussion, the union withdrew its point in favor of management's. It was taken

on faith that the company was in financial straits.

Change-by-Change Negotiations

To recount the detail of the department-by-department changes installed during the succeeding two years would far exceed the space limitations of this article. In all, some twenty proposals, each usually covering a department, were examined during this period. Each was submitted in advance to the union for study; each was based upon time-studies that were carried on, once the existing equipment was overhauled for efficient operations; and the data upon which these studies were based accompanied each proposal. In addition, each proposal included descriptions of the new jobs created or modified from the old ones, the proposed schedule of wage rates (basic and incentive), and expected earnings for the "average" worker. The last item also stated the proposed production standards. Finally, a proposal gave the number of personnel to be required per shift and the amount of worker displacement, if any, that would be involved.

The negotiation procedure that followed for each proposal first entailed examination by the local union officers and workers involved and then a study by the national research office. When the proposal was returned with recommendations by research, it was again discussed with the workers directly involved and put to a vote. If the proposal passed through these stages successfully — and in most cases they did, or else were sent back to management for reworking — negotiations would then begin, ending in a tentative agreement to carry on a trial. Again, the trial conditions were submitted to the involved employees for approval. Then, at the end of the trial, negotiations for a final settlement would take place, which, if reached, would be submitted for a final vote of the workers. If no settlement was agreed upon, the trial would be extended for a period during which negotiations would be renewed. In the meantime, either party was at liberty to resort to arbitration. However, in no instance did this occur, although a two-day impasse on the very last proposal made (during which the plant was closed down) was experienced.

Some Results of the Program

What results eventually accompanied this process? Productionwise, capacity was expanded to the target sought by management. Although it is not clear how much this was attributable solely to an expansion of production facilities at the mill and to fuller utilization of existing equipment, it appeared likely that an increase in worker effort was at least partly responsible. With the increase in production, there was almost no expansion of the work force. Obviously, productivity based on production per unit of labor time advanced with the increase in production.

As for unit costs, however, calculations signified that the wage-rate changes determined through the negotiatory process yielded little reduction in unit labor costs. In effect, then, the work force managed to gain almost the entire saving in labor costs that would have been achieved had there been no accompanying wage increases. It might be wondered whether any substantial

benefit devolved upon management for the enormous two-year effort poured into improving its productivity position. Actually, management did secure benefits through reducing unit overhead charges, and it appeared likely that in several departments, where changes were yet to reach their maximum operating efficiency, further savings were to be realized.

In addition, the negotiations provided a wage structure that deviated little from the original. This was in sharp contrast to the structure proposed originally under the job evaluation program. Finally, displacement was held to a minimum of older workers, some women who wished to retire to housekeeping, and a few young workers who possessed no seniority.

What happened to worker morale, internal relationships within the union and management organizations, and the union-management relationship itself? No easy summary of worker morale can be offered. Attitudes ranged widely, but, in spite of widespread griping among the workers and the villagers generally, antagonisms seemed to be overlined with a feeling that the changes themselves had brought benefits to the community. The antagonisms that did exist were not directly attributed to the installation of changes but to actions of various personalities for allegedly failing to protect the full interest of those antagonized. On the whole, however, most of the participants felt that the negotiatory, deliberative process had brought equitable results.

Within the union structure, there was a further metamorphosis. In the midst of the technical change program, factionalism was revived to its fullest, and in the course of an election the former "outs" became the "ins." This development considerably alarmed management, which believed that the new incumbents would set out to wreck the program. However, despite an increase in backbiting, this fear failed to eventualize to any serious degree. Apparently, turning out the local officials who had been in office for several years indicated a growing dissatisfaction on the part of the rank-and-file that too much influence had been yielded to the national organization. This was probably true, but as such it was not a protest against technical change, but a symbol of the local community's attempt to reassert its traditional independence. For, once the reassertion was uttered, the process of deliberation remained virtually the same. The overturn within the union had served primarily as a safety valve for releasing pent-up sentiments.

The fact of the matter was, however, that the locus of decision making on issues concerning the local union had shifted in part to the national. But this shift was acceptable in that the national was providing greater effectiveness in offering protection against a much wider environment than merely the behavior of management at the Company X mill. On the other hand, it should be noted that the national representatives were highly aware of this potentially difficult position and, accordingly, attempted to give the greatest leeway to local participation in decision making.

Relations within the management structure also underwent change during this period. From a condition of

loosely-held authority, there was a tendency toward centralizing the decision-making functions at the very top of the management hierarchy. Undoubtedly, this led to an undermining of first-line supervision in dealing with the workers, but at the same time it served the purpose of making clear within management who had responsibility. This situation was almost completely opposite to what had prevailed at the plant before the change in ownership in 1943. For the working out of technical change problems, however, the development served to clarify management's position vis-a-vis the union. Moreover, with further evolution of this position, it would again become possible to delegate authority and responsibility to subordinate members of management. But first it had been necessary to unify and elucidate management policy and practice at the top.

The resulting union-management relationship witnessed a fairly stable balance of the elements of conflict and cooperation. That there continued to be conflicting patterns of behavior cannot be denied, as, for example, the frequent attacks of the newly elected local union officials upon the motives of management in making technical changes. However, in general, the various groups found that they could lean upon one another both for survival and for mutual advancement of their objectives. Management, which never questioned the need for a union in the village, had come to rely upon the national to maintain a semblance of discipline within the local and to give serious consideration to the company's competitive position in the industry. And, although antagonism continued to exist in the relationship between the local union and management, the local officers and, in general, the rank-and-file workers looked to the national organization for education and interpretation of management's aims in undertaking the technical change program. At the same time, moreover, while depending upon the national for protection in the general political, social, and economic environment, there was a common belief that the villagers themselves were as much responsible for working out the final detail of the technical change as was the national union or the management. Although, as in most situations, conflict and cooperation existed side by side, by the time the technical change program at the mill was virtually complete, these evolving institutional relationships had succeeded in maintaining a state of equilibrium.

What the Case Suggests

What clues to resolving the human problems of technical change does this case offer? We do not pretend that the experience of the Company X mill furnishes any model of perfection. Neither was it the embodiment of complete harmony nor an example of overt conflict. Like the great bulk of labor-management relationships, it lay somewhere in the middle of this continuum. It warranted no sensational headlines of industrial warfare, no glowing analyses of the "causes of industrial peace."

On the environmental side, certain factors may be briefly mentioned as having been conducive to achieving agreement upon and compliance with

the installation of technical changes and their accompanying conditions. It seems reasonable to conclude that for the period studied the economic climate — full employment and rising money earnings — was a facilitating element. Likewise, by this time, harmony had been generated by such general protections as those found in our social security programs.

More importantly, within the wool industry itself, certain changes in institutional relationships were exercising implicit influences upon the course of developments at the Company X mill. By the end of the war the great majority of the workers in the industry were organized, and union-management relations were chiefly defined by negotiations between the major union and a few firms in the industry. Thus, in these "follow-the-leader" circumstances, the basic labor agreement was virtually "given" to a mill such as X Company's. Accordingly, the negotiators at the X mill were free to focus directly upon problems of technical change. Moreover, the participants had come to look to the environment for leadership. This general development, then, seemed to outline in advance some of the respective rights and functions of the participants in relationship to one another. For example, there was little question on either side that most elements of a technical change were subject to joint deliberation and collective bargaining. The spelling out of a set of guiding principles was itself a formal recognition of the relationship that had already evolved.

Did the specific practices and procedures themselves seem to facilitate the making of changes? Without being aware of the environmental and institutional forces at work described above, it does not seem possible to offer an answer. That is, to recommend that there be a severance pay provision, advance discussion, sharing of gains — or to detail any neat formula — becomes but a vague guide for the task of avoiding the human problems of technical change. In other words, the exact techniques apparently fall within a wide range of possibilities, and the evidence in the X Company case seems to indicate that the most effective are those that reflect most closely the interrelationships of the basic institutions — in this case, the local union, management, the national union, and the village community. In other cases, of course, the basic institutions could be different.

To sum up, it is difficult to approach the human problems of technical change solely at the plant level. The evolution of institutional relationships can, as indicated in this case, carry a positive flavor for technological progress. However, this evolution is rooted in the whole social and political complex of modern industrial society, not merely in the plant. Accordingly, a first clue to resolving human problems of technical change, like other problems in human relations, may lie in giving voice in decision making to the society's participants through institutions of their own making that serve in their interactions with one another to preserve a dynamic equilibrium and advance their respective interests.

Consumer Reaction to Self-Service Meat Marketing

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Growth of Self-Service Meat Retailing

During the postwar years the self-service retailing of fresh meat has expanded substantially. According to figures compiled by Armour and Company, self-service meat departments grew from 15 in 1945 to 1,983 in 1950.[1] This expansion has been the subject of numerous investigations by students of the meat industry. Such questions as the effect of this development on costs of meat retailing have been considered. Many of these questions cannot be answered with any degree of certainty, because of the difficulty of obtaining valid comparable data from stores. Too few stores installed the method in its early years to enable a student of the subject to reach any well-grounded conclusions on the historical trends of costs or on the effect of the new merchandising development upon employment.

Attempts to Measure Consumer Reaction

One of the first interests of investigators had to do with determining consumer reaction to the innovation. Practically all those who studied self-service meat retailing included a treatment of this aspect. Many of these surveys were conducted by industries affected by the development, and the information released by the sponsoring companies was insufficient for any meaningful evaluation of the results. Other surveys, made by students, did not employ any recognized device to achieve a random sample and/or did not include enough information on the questionnaire and interviewing techniques which had been used to permit any significant interpretation of their findings. The one survey made by the United States government accepted retailer opinion of consumer response as the measure of consumer acceptance.[2] Generally speaking, the principal objective of most of these studies was to obtain consumer opinion of the innovation.

In view of the limitations observed in these prior studies, the writer decided to conduct a consumer survey with the objective of determining whether consumers who accepted the innovation differed significantly in certain characteristics from those who did not accept it. A housewife was assumed to have accepted the innovation if she purchased more than half her fresh meat at a self-service meat department. The attributes studied were selected on the basis of a careful investigation of the meat-buying habits of consumers.

The information obtained by such a survey should be useful to merchants who are considering conversion to self-service, as well as to students of the

[1] Sam Teitelman, "Self Service Meat Retailing in 1950," *Journal of Marketing* XV (January, 1951), 309.

[2] A. T. Edinger, *et al., Retailing Prepackaged Meats* (Washington: Government Printing Office, 1949).

meat industry. This article makes no attempt to project the results of this purely local survey to other areas, although it is probable that what is true of the community studied may, to some extent, apply to similar communities elsewhere.

The Community Used for the Study

In 1950, Champaign-Urbana, Illinois, had a population of 62,404.[3] These twin cities, the home of the University of Illinois, are located in the east central part of the state. There are five self-service meat departments, operated by two chains, in the community, but they are grouped in such a way that most of the city (74% of the total number of blocks) is more than five blocks from any self-service store. This fact made possible a study of the effect of distance and grouping of stores on acceptance of the innovation. A good distribution of households among geographic areas was obtained by a random selection from the population.

The stores studied varied somewhat in type of trade and internal layout. Within three blocks of three of the stores there were conventional meat departments of comparable size and handling meats of comparable quality, and near the other two there were small neighborhood stores. The fact that four of the self-service meat departments in the city had been converted to that type within a six-month period in 1949 limited the study of the effect of time upon acceptance of the innovation.

[3] *Champaign-Urbana News Gazette,* June 15, 1950, p. 3.

Techniques of Analysis

By the use of random numbers, 447 households were selected from a corrected address list of the 1949 Champaign-Urbana city directory. These households were found to be reasonably well distributed geographically. From the original sample 432 schedules were completed. At four households no one was ever found at home, and representatives of three others refused to be interviewed. Members of 75 households were interviewed on the third or later call. The addition of these households did not change the results of the survey.

The questionnaire was tested by means of a pilot survey. The sample for the pilot study included a diversity of income, occupational, and social classes, as well as of persons who lived at various distances from self-service meat departments.

Interviewing was done by students in the advanced market research class at the University of Illinois with the help of three staff members from the Bureau of Economic and Business Research. The students had had experience in interviewing and were trained in the techniques of the National Opinion Research Center. Two class periods were devoted to the briefing of the students so that all interviewers would operate in the same manner. The actual interviewing was done in March and April, 1950.

The questionnaires were edited by the writer of this article, with a view to detecting any contradictions, inconsistencies, illogical answers, or other deficiencies that might invalidate a schedule. Comparisons were made of

schedules completed by the same interviewer to note similarities among schedules and any incongruities between a respondent's background and her answers. Eight schedules were discarded because of some inconsistency.

Summary of Findings

Of the respondents, 34 percent indicated that they bought most of their fresh meat at a self-service meat department; 45 percent at a single service meat department; 11 percent at two or more meat departments or markets; and the remaining 10 percent either half and half at service and self-service meat departments (four out of forty-four cases), or else at no meat department or market in the twin cities.

The method of analysis was intended to test the hypothesis that a particular characteristic of consumers was associated with acceptance of the innovation. Reliance on the trustworthiness of this hypothesis was not taken to indicate an assumption of causation but rather as a suggestion that the degree of association was greater than could be expected as a result of chance variations in sampling.

The distance of a household from a store was not found to be related to acceptance of the innovation, but the total number of self-service meat departments in a geographic section of the city apparently had a definite bearing on consumer attitudes. The greater the number of such departments in any geographic section, the more households were found that purchased most of their fresh meat in these departments.

There seemed to be no relationship between family income and acceptance of self-service meat purchasing. This statement cannot be accepted as conclusive, however, because of the difficulty encountered in obtaining information about incomes. Fifty-four of the respondents either refused to tell the interviewers the amount of their family income or else said that they did not know what the husband's income was. Whether the respondents who did answer the question were entirely accurate in their replies may be open to question.

Each housewife was asked how much experience she had had in keeping house. It was found that the women who had less housekeeping experience accepted the innovation more readily.

The method of shopping was found to be related to the acceptance of self-service. The principal factor influencing this relationship was the practice of shopping by telephone — a natural finding in view of the fact that none of the self-service departments accept telephone orders. When telephone shoppers were excluded from the sample, no relationship was found between method of shopping and acceptance of the innovation.

Persons who lived in the Campus area of the community were found to be no different in their acceptance of the innovation from persons who lived at similar distances from self-service departments in other sections of the city. In previous shopping-habit surveys this section of the community had been omitted because of the assumption that it differed significantly.

The hypothesis that women who traded at self-service stores were more favorably inclined toward self-service than those who traded at service stores

was tested and accepted. Thus, those who were in the habit of trading at self-service stores were doing so for reasons other than necessity.

No relationship was apparent between size of family and self-service meat buying.

Forty-six respondents who bought most of their fresh meat at stores of the conventional type indicated that they had had no experience with the innovation. This was true in spite of the fact that most people liked to know about "something new," and that the largest supermarkets in the city had converted to self-service.

Forty-seven persons told interviewers that they did not buy half of their fresh meat at any one store; these respondents were classified as "shoppers." Their reasons for dividing meat purchases were given as price and/or quality and convenience. Thirty-seven of the number were price and/or quality shoppers, who bought where they could find the best bargains or who bought certain kinds of meat at certain stores. Sixteen of this group liked the innovation; fourteen both liked and disliked it; thirteen did not know enough about the plan to express an opinion; and two did not answer the question. Only four had charge accounts at stores which handled meat in the conventional manner.

Forty of the households in the sample obtained most of their supply of fresh meat from sources other than the meat markets and departments of the city. Twenty-nine of these had private sources of meat and either bought their meat from farmers in the vicinity or owned farms themselves. Five households obtained most of their supplies of fresh meat from dealers in other towns.

Reasons Given for Buying Practices

The respondents were asked why they purchased most of their fresh meat at one store, if they said that they followed that practice. Eighty-three percent of the self-service customers gave reasons associated with the convenience of the store: near home, near work, buy groceries there, buy produce there, and parking facilities; whereas only 52 percent gave this type of reason for trading at a service store. Of the latter group, 10.2 percent said that they bought at a service store because their purchases were delivered.

Of the self-service customers, 16 percent indicated acquaintance with some of the store personnel as a reason for their patronage; 25 percent of the service customers gave such acquaintance as a reason. Two-thirds of the self-service patrons gave certain advantages of the meat departments — complete selection, quality, and the self-service feature — as reasons for their trading at these stores. Similar reasons for trading at service meat departments were given by 64 percent of the patrons of conventional stores. Of the self-service patrons, 14 percent mentioned self-service as one of the reasons for trading at a particular store. A like percentage said they preferred the self-service meat departments because of the complete selection available there. Nine percent of the service store customers gave complete selection as their reason.

Price was given as a reason for trading at the two types of store by about the same proportions of service and

self-service customers. The quality of the meat sold was given as an important reason by 26 percent of the self-service customers. A much higher proportion, 45 percent, gave quality of meat as their reason for trading at a particular service store.

The interviewers were told not to suggest answers to respondents, but rather to let them talk freely about their reasons for buying at a certain store. Categories were provided for classification purposes. The conclusion reached by the writer was that self-service was a relatively unimportant reason for trading at a given store.

Influence of Innovation on Shopping Habits

Very little evidence was found of any change in shopping habits because of the introduction of the new method of selling fresh meat. The respondents were asked whether they had changed the place where they bought most of their fresh meat in the six months preceding the survey. Of the twenty-one who had made a change, only three mentioned self-service as a reason.

One-fourth of those who were purchasing most of their fresh meat at a self-service meat department expressed a dislike for the innovation. Their dislike, however, was not great enough to change their shopping habits. Reasons for buying meat a particular store seemed to be strong enough to offset any dislike for the new method. Slightly more than a third of the sample expressed a dislike for the innovation, but one-fourth of them bought most of their fresh meat at a self-service meat department. Stores that converted to self-service lost very few customers.

Only 49 of the households in the sample maintained charge accounts at stores where meat was sold. Seven of these bought most of their fresh meat self-service, even though they carried charge accounts at conventional stores. No self-service store sold on a credit basis.

On the basis of this study, the writer concluded that no significant characteristics could be found by which self-service customers and service customers could be distinguished. The main problem for meat dealers who are considering converting to the new method seems to be one of the internal operating efficiencies, rather than fear of unfavorable consumer reaction.

The Shanghai Market Under Hyperinflation*

PAO-CHUNG MA YANG

IN THE history of the Chinese monetary system, Fapi, the legal tender currency of the Nationalist Government, was the most progressive. It contributed greatly toward building up national resistance against the Japanese aggression. As a result of World War II, however, and more recently of the Chinese civil war, this currency suffered from an increasing inflation. During the period of the war against the Japanese, 1937 to 1945, the inflationary movement was rather moderate; but in the years 1947 and 1948 the nation reached the stage of hyperinflation. On August 19, 1948, the Fapi currency was reformed in order to stabilize the national economic situation. Lately, the reformed currency collapsed as a result of the successful Communist advances.

This article deals with the years 1947 and 1948, during which the hyperinflation of the currency was apparently the most important economic phenomenon. Because of the complexity of economic factors involved, it will attempt only to interpret the relationships among interest rates, commodity prices, and stock prices in the Shanghai market at that time.

It should be pointed out that the city of Shanghai is the center of economic activities in China. Most of the modern industries, business firms, and banking institutions are concentrated in this area. Along with its geographical preeminence, the city provides the largest market in the nation.

Analysis of Commodity Prices

So far, China is not an industrialized country. Most important commodities, such as steel and machinery, are imported. The manufacture of textiles is the leader among the large industries in China. Its output goes not only to supply domestic consumption but also for export to other Asiatic countries. Most of the textile factories are located in the Shanghai area. Consequently, the market for cotton products is the largest in Shanghai, as well as in all China. The second largest market in Shanghai is the grain market. Since China, particularly the provinces in the neighborhood of Shanghai, is a rice country the chief commodity in the grain market is rice.

During the wartime and postwar years, foreign exchange was tightly controlled by the government. An arbitrary exchange rate was fixed on the foreign purchasing power of the currency. Nobody knew the real value of the foreign purchasing power. On the other hand, in the face of constant inflation it was rather difficult to determine the real value of domestic purchasing power. Because rice and cotton products dominated the Shanghai market, it is probable that fluctuations in the market for grain and cotton products served as an indicator of the economic situation, as well as of the domestic purchasing power of the currency.

In so far as domestic purchasing

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* Based on research for a graduate course in economics at the University of Illinois, 1950-51.

power was concerned, fluctuations in commodity prices went along with the depreciation of the currency. However, because of the decline in the purchasing power of the people the prices of various commodities fluctuated very erratically; costs of the necessities of life, such as food and fuel, for example, rose much more rapidly than did those of luxury goods. Meantime, because of the decrease in production the inflation in commodity prices was greater than that of the currency.

A brief account of the effect of fluctuating commodity prices on the national currency and on the supply of commodities, in the years 1947 and 1948, is presented as follows:

Inflation of Currency. By adopting a policy of issuing currency, the government created purchasing power which was actually shifted from the whole nation. If there was no change in the amount of goods in the market, and also if the deposits in the banks were not withdrawn to become idle capital, commodity prices were likely to rise at the same rate by which the currency was inflated. These assumptions were applicable so long as the inflation was rather slow in the earlier stage of depreciation from 1938 to 1940.

In the 1947-1948 period of hyperinflation, however, the national savings had been withdrawn from the banks and formed a huge amount of idle capital, which was engaged in the commodity market, as well as in other local markets. Hence, the total buying power then active in the local market would include the paper money which had been issued, together with the idle capital withdrawn from the banks. As a consequence, prices were inflated several times as much as the paper money.

The following tabulation summarizes the amounts of currency issuance and of savings deposits in banks for the prewar year 1936 and the month of October, 1947:

	Billion Fapi Dollars	
	1936	*October, 1947*
Issuance of Currency	1.7	34,000
Savings deposits in banks..........	4.0	4,000

If it is assumed that the savings deposits withdrawn from the banks increased in the amount of currency they represented at the same rate as that at which the currency was being inflated the buying power active in the local market in October, 1947, in terms of paper money, might be computed as follows:

$$\frac{34{,}000}{1.7} \times (1.7 + 4.0) - 4{,}000 =$$
$$110{,}000 \text{ billion Fapi dollars}$$

If the supply of commodities remained unchanged, at the end of October, 1947, commodity prices would be inflated approximately $\frac{110{,}000}{1.7}$, or 65,000 times the 1936 level. As a matter of fact, commodity prices increased to about 100,000 times the 1936 figure. This may have resulted from the fact that commodity supplies were substantially cut down either during the war or in the postwar years.

It is evident that the rate of inflation of the currency does not measure the rate of commodity price increases, since in the period from 1936 to 1947 the currency was inflated to about 20,000 times the figure for the earlier year, whereas the rate of inflation for com-

modity prices was approximately 100,000 times.

Supply of Commodities. During the war farming operations suffered a considerable decrease. Many young people left the farms either to be drafted or to go to cities where they expected to find jobs. Consequently, agricultural production was cut down considerably. In prewar times, the country's food supplies were as a rule self-supported. More recently, however, the nation has faced a serious shortage of foodstuffs, the prices of which advanced at a much more rapid rate than those of other commodities.

In the manufacturing industries difficulties occurred either in operating the plants or in marketing the products. Because the bookkeeping accounts had to be kept in terms of legal currency, it was very hard to compute manufacturing costs while the paper money was undergoing a process of inflation. As a result of the shortage of raw materials, the shrinkage of markets, and the decline in national buying power, the market price of finished goods was usually lower than the cost of production. Diminishing returns on industrial investments caused manufacturers to curtail their output in order to minimize the constant losses. Thus the supply of commodities was gradually decreased.

In so far as commodity prices are concerned, they will rise 100 percent if production is decreased by 50 percent. It has been pointed out that in the period of hyperinflation in China the likelihood was that prices would rise to about 65,000 times the 1936 figure, in conformity with the rate of currency inflation. Actually, they rose to approximately 100,000 times the base figure. If the curtailment of production was the result of the additional inflation of commodity prices, the supply of commodities was likely decreased by about 35 percent in 1947, as compared with the prewar level. No statistical information is available as to the volume of production for the specific period in question. However, it is very probable that the general output of local industries approximated the assumed level after curtailment.

Analysis of Interest

In determining the amount of interest, there are four important factors: (1) the amount of the principal, (2) the rate of interest, (3) the period of the loan, and (4) the frequency of compounding. The amount of the principal and the time for which it is loaned are decided by the lender. The rate of interest and the frequency with which it is compounded, on the other hand, are dominated by the fluctuations in the interest market.

In the prewar years the common practice was for interest to be compounded semiannually. When inflation began in 1938, compounding periods became shorter and shorter, decreasing to one month, ten days, three days, and finally to a single day.

In 1947 and 1948 most major commodity transactions were carried on by using gold bars as the medium of exchange; the balances were cleared by using paper money. Hence, the loanable funds available in the money market consisted of the daily balances in the business accounts of local firms. It was not unusual for the duration of a loan and the period of compounding

to be only one day. If the rate of interest was increased, and the frequency of compounding accelerated, the total amount of a unit principal and its accumulated interest was likely to parallel the trend of the commodity price index.

It is very probable that the frequency with which interest was compounded was closely related to the velocity of money circulation If prices were inflated very rapidly, the currency circulation would be correspondingly speeded up. It has been noted that in October, 1947, a piece of paper money was used in transactions about sixty times — in other words, the paper money was held by one person for only half a day.

If the rate of interest was 30 percent a month, and the interest was compounded daily, at the end of one year the amount of a unit principal and its accumulated interest would be

$$1.00 \times (1.01)^{365} = 37.2 \text{ units}$$

Hence, the accumulation of interest would compensate the depreciation of the currency if the price index increased 37.2 times during the same year.

In daily usage, interest is actually connected with the current supply and demand of loanable funds. At any moment when the supply of loanable funds exceeds the demand for them the rate of interest will decline. During the period of inflation demand and supply of loanable funds were more or less related to the fluctuations in commodity prices. The periodic fluctuation of interest rates with respect to commodity prices was likely to pass through five stages.

(1) Because of the prejudice against paper money, the excessive profit caused by depreciation of the currency was the prime motive in supply and demand of loanable funds. Thus fluctuations in commodity prices usually preceded changes in interest rates.

(2) While commodity prices were rising to a new higher level, demand for funds was also increasing in the money market. However, it was more profitable to buy commodities than to lend the money for interest. The excessive demand in the money market brought about an advance in interest rates. As interest rates increased, the cost of production rose accordingly. The rising cost of production in turn caused commodity prices to increase further.

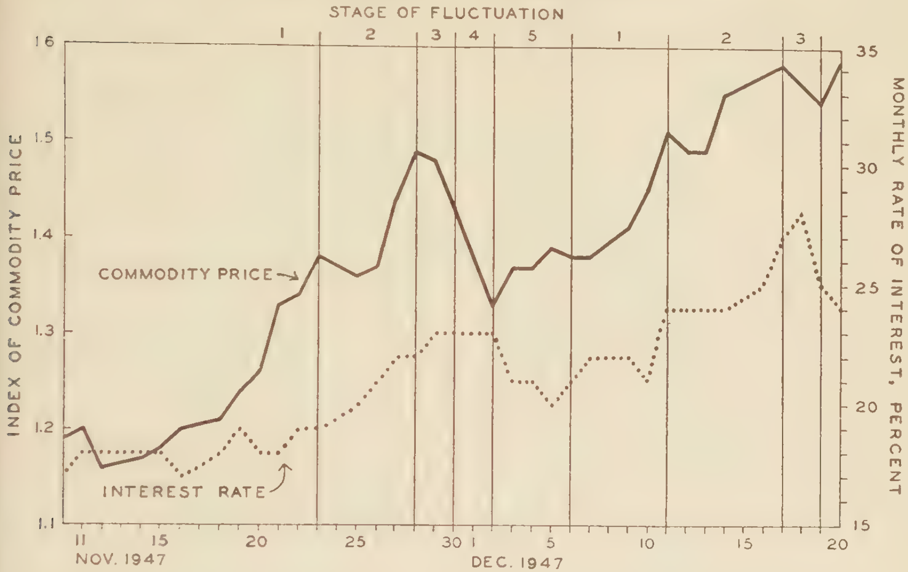
(3) The excessive demand accompanied by the shortage of supply resulted in a very tight state of the money market. Temporary rollbacks of commodity prices occurred when holders of goods would sell part of their holdings to recall some of their funds in order to profit from the credit inflation.

(4) If demand and supply were in equilibrium in the money market, interest rates might be stable for a brief period.

(5) As the result of commodity price rollbacks, as well as of a decreasing demand for loanable funds, the money market might be temporarily oversupplied. Interest rates would then fall from their peak level to a lower one, and commodity prices might recover accordingly.

The periodic fluctuations of interest rates with respect to commodity prices are portrayed graphically in the accompanying chart, in which the vari-

Periodic Fluctuation of Interest Rate with Respect to Commodity Price, November 10 to December 20, 1947



ous sections represent the stages described in the preceding paragraphs. Original data on which the chart is based were taken from Shanghai daily newspapers.

At the time of the most sereve hyperinflation, the term of a loan was only one day. The loan might be called in the next day. Everyone knew that the purchasing power of the paper money was depreciating minute by minute. Hence, if a loan was to be made the lender would ask for a rate of interest sufficiently high to compensate the depreciation of the currency. If the market rate for interest was lower than the expected rate for compensating the depreciation, the lender would keep the money in commodities. Thus equilibrium of demand and supply was of minor importance in determining the interest rate in the money market. The interest was likely to be the premium for compensating the depreciation of the paper money.

Relation Between Commodity Prices and Interest Rates

Since commodity prices fluctuate with respect to time, it is logical to consider the time factor in making comparisons between commodity prices and interest rates. It has been previously noted that the amount of a principal and its accumulated interest is a function of time, whereas the rate of interest is independent of time. Hence, it is feasible to interpret the relation between the index of commodity prices and the total amount of a unit principal and its accumulated interest. The table on page 52 shows these relationships for the week of August 3 to 10, 1947.

This table shows that the index of

Comparison of Interest Rate, Commodity Prices, and Total Amount of Unit Principal and Accumulated Interest

Date	Daily rate of interest	Index of Commodity prices	Index of Total amount
August 3	1.9%	1.00	1.00
4	1.9	1.01	1.02
5	1.9	0.98	1.04
6	1.7	1.04	1.06
7	1.6	1.10	1.08
8	1.5	1.21	1.10
9	1.5	1.21	1.11
10	1.5	1.14	1.13

commodity prices rose about 14 percent during that week. If a unit principal, in terms of paper money, had been loaned in the money market on August 3, the total amount of the principal and its accumulated interest compounded to August 10 would be 1.13 units. Thus the loanable fund would have apparently returned a profit of about 13 percent in paper money. However, the currency had depreciated from its base figure on August 3 to $\frac{1}{1.14}$, or 0.877, on August 10. The purchasing power of the total amount would then be 1.13×0.877, or 0.991 units. Evidently the loan actually incurred a loss, when the purchasing power of the currency is taken into account. Since the lender would be repaid only 99.1 percent of the principal he loaned, in terms of the depreciated purchasing power, he might be said to have received interest for the week at a rate of -0.9 percent.

Because a rise in commodity prices usually preceded an increase in the interest rate, at the initial stage of a tide of inflation the interest rate with respect to purchasing power would have a negative value. The index of commodity prices would be greater than the index of the total amount of a unit principal and interest. When commodity prices were being rolled back or temporarily stabilizing, the interest rate in terms of purchasing power would become positive in value as the amount of interest grew over a period of time. It is not very likely that in the long run the rate of real interest, with respect to purchasing power, would prove to be negative in value.

Diminishing Returns on Industrial Investments

The profits on an industrial investment are achieved through a series of operating processes: purchase of raw materials, manufacture of product, and sale of product. The difference between the sale price of the products and their cost of production is of vital importance in measuring the amount of profits. When the economic situation shows a high degree of stability, the sales price usually exceeds their cost of production. Consequently, investment is advantageous and results in profits in the form of interest and dividends.

When prices rise, "book-value" profits are vastly increased. Because paper money is depreciating, the prices of finished goods are generally much higher than their initial cost of production. However, as manufacturing processes are continued, costs of production will come to be far greater than the current prices of the finished goods. For example, the manufacturing process in

the textile industry is likely to consist of four major stages: (1) obtaining raw cotton; (2) spinning cotton yarns; (3) distributing textile products to dealers; and (4) selling the products to consumers. Each stage of the process requires about one week for completion. Hence, the return of capital should come about a month after its investment; that is, the profit should be available one month after the capital was invested.

When economic conditions are fairly stable, the profit might be predicted in advance on the basis of a comparison between current costs of production and current sales prices for finished goods. During a period of inflation, the depreciation of paper money would tend to diminish prospects for future profits. The depreciation of the currency will customarily counterbalance the expected profits. The following tabulation shows the fluctuation in prices of raw cotton and cotton yarns in a single month:

	Index of Price	
Date	*Raw cotton*	*Cotton yarns*
November 5, 1947......	1.00	1.00
December 5, 1947......	1.37	1.35

This tabulation indicates that "book-value" profits, in terms of paper money, for one month — the period needed for a single complete process of textile manufacturing — would be about 35 percent. But in that period the price of raw cotton has risen approximately 37 percent. Thus, by selling one unit of the finished goods produced from one unit of the initial raw cotton the manufacturer would obtain $\frac{1.35}{1.37}$, or 0.986 unit of raw cotton, for the continuation of his operations. Hence, the apparent profit on the investment turns out to be a negative value; in a single round of production the investment has in fact lost about 1.4 percent of the capital.

One of the major economic features characteristic of a period of inflation is this diminishing return on industrial investment. Three vitally important factors should be considered in predicting the profits of industrial firms, and also in measuring the degree of diminishing return on investment.

1. *Cost of Production.* In ordinary industrial manufacturing, costs of production may be conveniently divided into two categories: (a) costs of raw materials; and (b) manufacturing expenses, the latter consisting of wages, interest, depreciation allowances, and all other operating expenses.

The cost of raw materials is usually the predominant factor in the cost of production. It is not uncommon that the same kind of raw material may meet the requirements of several types of industry, whereas the finished goods are usually consumed by some particular buyer. If the relationship between demand and supply is applied in determining the price of commodities, the cost of raw materials might advance much more than the price of the finished goods. Moreover, as a result of inflation the income and wealth of individual consumers may decline significantly, and their purchasing power may drop accordingly. The difference of price inflation between raw materials and finished goods will thus become much more acute. In order to maintain their operations, manufac-

turers have to buy raw materials despite the increased prices. They assume that their increased costs of production may be offset by sale of the finished goods at a higher price level. During a period when commodity prices are being inflated, therefore, raw materials take the initiative and finished goods follow correspondingly.

At the earlier stage of inflation wages were adjusted in accordance with the cost-of-living index, which was based on the average price of some important commodities in the preceding month. It should be noted that fluctuations in commodity prices always precede fluctuations in the cost-of-living index. That is, the monthly cost-of-living index usually lags behind the commodity prices. When, in the stage of hyperinflation, the differences between the two became highly significant it was not practicable to use a monthly cost-of-living index — not even a weekly one—in determining a wage formula. Industrial firms had to pay the wages of their employees in the form of living necessities, such as foodstuffs and clothing, the prices of which were far more highly inflated than those of ordinary industrial products. The increasing wage rates became a constant problem for these firms.

When a depreciation of currency is taking place, most industrial firms find themselves seriously short of capital for carrying on their operations. They have to borrow money and pay interest on the loans. Thus, the payment of interest is a heavy burden for them. Many firms suffered bankruptcy as a result of their constant losses from paying interest.

2. *Price of Finished Goods.* Commodity prices were generally inflated in the following order: raw materials, partly finished goods, finished goods, refined goods.

The differential rate of inflation in the Shanghai market depended largely on the market consumption of individual commodities. The market for cotton yarns consists of not only the Chinese mainland but also the majority of Asiatic countries. The consumption of cotton yarns might have the effect of encouraging the textile firms to sell off their current output. As a consequence, they would have their capital returned in a very short period. The differential rate of inflation between raw materials and finished products might be insignificant. However, minor losses are charged against the investments of textile firms.

In so far as the allied industries of weaving and clothmaking are concerned, the story is entirely different. Certain kinds of finished goods meet the requirements of specific consumers. Seasonal fluctuations in consumption also have the effect of slowing down returns on investment. If the return on investment is delayed, the differential rate of inflation between raw materials and finished goods becomes much more significant, and the burden of interest payments comes to be intolerable. Hence, the weaving firms suffer a seriously diminishing return on their investment.

The degree to which the return on investment diminishes is influenced predominantly by the differential rate of price inflation between raw materials and the finished goods made from those materials. In general, the secondary

producing firms, such as the weaving and printing concerns, suffer heavier losses than the heavy industries, such as textile factories and paper mills. Prices of stock in these primary industries usually show greater advances than in the secondary manufacturers.

3. *Governmental Price Control.* If new currency is constantly being issued, the economic system of a nation is inevitably disturbed or even reorganized. When the government takes no concrete step to check the circulation of currency, no economic stabilization policy can be carried out effectively. Very often a governmental stabilization order may have some effect at the very beginning but become less effective later on. In some cases, a governmental order may have a discouraging effect on future prospects for industrial production.

After the issuance of a price order, the government is able to tighten the control over large firms but finds it difficult to deal successfully with individuals or small firms. Moreover, a price order may be more effective in relation to finished goods than to raw materials. In most cases the raw materials consist of agricultural or mining products. When the controlled price is actually less than the cost of production, farmers, as well as miners, may cut down their output.

For example, the government once tightly controlled the price of raw cotton. Cotton farmers had to change their operations by substituting other crops, such as grains, in order to avoid inevitable losses under the price order. The result was not only impairment of the incomes of cotton farmers but also a serious shortage of raw materials for the textile industry. When the government found that the price order on raw cotton was not feasible, a modification or temporary suspension of the order was made. As a consequence, the price of cotton rose tremendously. It may be assumed that if no price order had been issued any advance in cotton prices would have been moderate.

Although the price order on raw materials proved impracticable, a price formula continued to be applied to industrial products. However, prices of these products could be adjusted in accordance with increasing costs of production. By the time that the government had approved the adjusted prices the new costs of production might have changed substantially. Hence, prices for finished goods were in many cases less than the costs of producing them. Constantly diminishing returns of capital caused accumulated losses on industrial investment. Future prospects for industrial firms were so unfavorable that they had to reduce their output or suspend their operations until the outlook seemed more promising.

If the concerns were unwilling either to suspend their business or to sustain heavy losses on their investments, they could continue to operate only through illegal channels by disposing of their products in the black market. So long as the black market was in existence, the brokers would receive excessive profits at the expense of consumers and producers. Consequently, commodity prices would rise even further.

Analysis of Stock Prices

During the inflation, stock prices fluctuated along with the inflation of the currency. Periodic fluctuations oc-

curred in both commodity prices and stock prices. Uusually an advance in commodity prices was associated with an increase in stock prices, but prices of stocks might not rise to the same extent as commodity prices. It is likely that the commodities were more stable than the stocks. If stock prices lagged far behind commodity prices, investment activity might cause an excessive increase in the former. Hence, stock prices customarily swung around the trend of the commodity price index. In temporary fluctuations stock prices are likely to be influenced by speculation and political situations, as well as by current conditions of demand and supply in the local money market.

Over the long run, the trend of stock prices is likely to parallel that of commodity prices. The distance between these two trend lines often indicates the business condition of the firms whose stock prices are quoted. For instance, the index of stock prices for the textile industry, in which the diminishing return on investment was not very significant, was very close to the index of commodity prices. This fact showed that the prices of textile stocks were being inflated at virtually the same rate as commodity prices. For the weaving industry, which suffered a considerable loss because of diminishing returns on investment, the index of stock prices fell far below the commodity price index. During the inflation, most firms were actually depressed. This condition was reflected on the stock market in the greater inflation of commodity prices than of stock prices.

What's Going to Happen Is Already Happening

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MUCH HAS BEEN WRITTEN about the need for alertness on the part of the businessman. New products are developed and the demand for old products disappears. New machines are invented and the old machines are soon obsolete. More economical methods of doing things are introduced, and the businesses that keep on using the old methods fail. There is constant change around us.

The invention of the phonograph and the automobile pretty well stopped the sale of the piano; the phonograph was soon pushed off the market by the radio; and the radio is now being challenged by television. The old opera house was replaced by the movie theater. The railroad supplanted the stagecoach and the canalboat; and now the steam locomotive is being displaced by the Diesel engine. Horse-drawn implements have been largely replaced with tractor-drawn equipment. The oil lamp was pushed into the scrap heap by electricity. Boots went out of fashion when sidewalks were built. Sales of long underwear declined when homes were equipped with central heating systems. Golf clubs replaced croquet sets. Nylon is taking the place of silk in women's hosiery and lingerie. And so it goes, ad infinitum.

Persistence in Demand for Older Products

Such changes, however, do not take place overnight. The first steam train in America ran in 1830, but it was not until two decades later that the railroad began to change life materially, and the period of rapid railroad building came in the eighteen-seventies and eighteen-eighties. Automobiles were being made in the eighteen-nineties, and in 1908 Ford began to turn out Model T's. It was not until the 1920's, however, that large-scale purchasing of automobiles set in, and a system of paved highways was built. Buggies were still important in the 1910's, and many canals continued to operate after 1890 — some even until World War I.

Edison invented the electric light in 1879, but the oil lamp was a big seller in the 1900's and it was not until the rural electrification program of the 1940's that such lamps really went out of use. The oil lamp was thought to have made the candle obsolete, but it is said that more candles are sold today than when oil was discovered in Pennsylvania.

Although, as has been mentioned, the radio almost stopped the sale of phonographs, many families now own pianos, radios, and record players and sales of records are said to be at an all-time high.

In many homes oil or gas has replaced coal for heating purposes. In numerous industries power is supplied by Diesel engines or hydroelectric plants. Some railroad systems have replaced all their coal-burning engines with Diesel locomotives, yet there is as much coal mined now as there was twenty-five years ago.

New Methods Adopted Slowly

In 1934 the writer visited a modern one-story grocery warehouse, yet in 1951 many wholesalers and chain stores are just beginning to consider building one-story warehouses to replace their present multistory buildings. Pallets (or skids) were found to reduce the costs of handling goods through warehouses and were used in many such buildings in the early 1930's. Twenty years later they are by no means universally used.

The first modern cash-carry grocery store is said to have been opened in 1908. The idea caught on, and many such stores were opened in the 1910's. Modern accounting, which had come into use about 1900, made possible the supervision of a number of scattered stores. This fact made the operation of chains practicable, and the chains seized upon the cash-carry (economy) method of operation so that they might secure price advantages with which to attract customers. The first chains were started in the 19th century, but as a group grew very slowly until after 1900. They attracted attention, and thereby good merchandisers and capital, in the 1910's but their period of rapid growth came in the following decade. Cash-carry stores meant that the stores were near the consumers, who could carry their groceries home. Thus, the new type of store was a neighborhood store. The typical chain grocery of the 1910's was a one-man establishment which was closed at noon while the manager went to lunch.

When the automobile came into general use in the following decade, as has been pointed out, it was no longer necessary to have stores in every neighborhood. Consumers who owned cars could easily visit stores at considerable distances from their homes. Furthermore, the cost of supervising the operations of a number of small stores was high. For both these reasons, a trend toward larger stores developed in the 1920's, and the one-man chain grocery store soon became a thing of the past in many towns. In its place there was a store with from two to ten employees regularly, and perhaps a dozen or more on Saturdays.

Then the depression of the 1930's arrived. With it there came distress merchandise, empty buildings available at low rents, and the necessity for economy on the part of consumers. As a result of these conditions the supermarket was born in the early 30's. Its success was phenomenal, further demonstrating the trend toward larger stores which was already evident. Even so, it is clear that in 1951 the supermarket has by no means displaced the small neighborhood grocery store. In some of the larger cities, such as Detroit, Philadelphia, and New York, the supermarket can hardly be called the typical food store, except in the suburbs. Thousands of the small neighborhood-type grocery stores are still in existence.

Milk marketing provides another example. People had experimented with heating milk for twenty-five years when a Boston distributor began selling pasteurized milk in 1905. Twenty years later, thousands of milk dealers were still selling raw milk. It was not until the middle 1930's that pasteurization became a practically universal method. In the early 1930's paper milk bottles

came into use in the East, but in 1951 large quantities of milk are still sold in glass bottles. Concentrated milk is now coming into use. Some two-thirds of the water is extracted near the source of milk supply, thus saving the cost of transporting and selling the water, which the housewife simply adds at the time of using the milk. This method of marketing milk is already in use in some areas; for example, concentrated milk is shipped to southern Florida from the Middle West.

Some students of marketing think this new process may revolutionize the distributing of milk in southern New England. It may prove cheaper to produce milk in the Middle West, concentrate it, and ship it to Boston and other southern New England cities than to ship protein feeds from the Middle West to Vermont to be converted into milk for shipment to Boston. This change would mean a basic readjustment of Vermont's economy, but if it should occur it is a safe guess that it would not take place overnight. Alert farmers in Vermont would have ample time to adjust their operations to the new method.

Bread is called the staff of life, and for thousands of years people have been eating this basic food. In recent decades bread baking has been gradually transferred from the home to commercial bakeries. The same is true to a lesser extent of cakes, pies, and cookies. Lately, however, various kinds of mixes have come on the market for the housewife who wants to bake her own cakes, pies, and rolls. Nevertheless, large quantities of flour are still sold for household use.

In the 1910's rayon, at first called artificial silk, came on the market; in the following decade its production expanded rapidly. Nylon hose first reached retail stores in 1941. Today nylon has largely replaced silk for women's hosiery and is finding many other uses in wearing apparel and in industry. Other plastics are proving even better than nylon for some purposes. Even so, there is still a large market for rayon, the early cellulose fiber.

Methods of store operation illustrate the same tendencies. The chains grew rapidly in the 1920's. To meet this new type of competition, many independent retailers, especially in the grocery trade, joined voluntary wholesaler groups, or established and operated their own wholesale houses. Although the first voluntary was started in 1916, the first operator to attract wide attention was S. M. Flickinger, who organized the Red and White group of stores in 1922. The movement grew rapidly, and by 1929 the number of independent retail grocers in either voluntary or cooperative groups was estimated to be 70,000, as compared with 65,000 stores operated by corporate chains.

The voluntary movement continued to grow. In 1945, in the antitrust suit against the Great Atlantic and Pacific Tea Company (A & P), figures were published showing the economy with which this company operated its wholesale houses. The voluntary wholesalers realized that they would have to reduce their expenses. With the ensuing economies and changed methods of operation, the voluntary wholesalers, now often called "contract wholesalers," entered upon a new period of

growth. The point here is that twenty-nine years after Flickinger pointed out and publicized the possibilities in the contract method of operation thousands of wholesale grocers are still using older, "conventional" methods.

Questions of Policy

Perhaps enough illustrations have been given to show that most new products and new methods of operation come into use slowly—slowly enough to give alert businesses time to make necessary adjustments without loss. Rarely does a new product, a new machine, or a new method of operation gain acceptance so quickly that the old becomes obsolete "overnight." Perhaps it is this very fact that causes much of the trouble. Something new comes on the market. An established firm does not like it, or at least decides to "wait and see how it turns out." The sales and profits of the established business do not show a decline. Accordingly, the manager decides that after all the new product or method is not going to amount to much, and more or less forgets about it. In a few years the firm's sales begin a gradual decline, but the manager blames poor business conditions, or the politicians in Washington, for the decrease. However, in ten or twenty-five years the concern realizes that it is losing money and investigation shows that its product or method of operation has become obsolete. It must then make large expenditures to catch up with current conditions, or else sell the business at a loss.

Questions of policy may be divided into two types: the first has to do with the proper time to enter an industry; the second considers how an established concern can adjust its business to changing products and changing methods of operation.

When to Enter an Industry

A firm that enters an industry early in its existence has much experimental and development work to do in perfecting the product and placing it on the market. On the other hand, a late entrant may find it extremely difficult to "break in." There is first the problem of securing a product as good as or better than those currently on the market. The quality of even an established product on which the patents have expired cannot always be matched quickly. Problems arise involving design, drafting, pattern making, securing properly designed and adjusted machines, training labor, and acquiring the "know how," of which the layman has no comprehension.

On the marketing side, if the product is sold through exclusive agencies established concerns have the best dealers, and a new firm must either employ less capable dealers or set new men up in business. If the article is to be sold through established stores, it is difficult to get enough dealers to stock what they think of as "just one more product." Besides, the names of established products are entrenched in the buyers' minds, and large sums may have to be spent on advertising, premiums, contests, prizes, and the like before consumer acceptance of the new product is secured.

The experience of two automobile companies illustrates this point. In 1903, Henry Ford established the Ford Motor Company. Much of the experimental work had been done; it was not

a difficult task to make a car as good as or better than those which were already on the market. Consumers had heard much about "horseless carriages" and were ready to buy. Thus Ford's new company was a success from the first. In contrast, the Kaiser-Frazer Corporation entered the automobile business after motor vehicles had reached a high degree of mechanical perfection, after the older companies had their dealerships well established, and after the names of other automobiles were firmly entrenched in the minds of consumers.

Stages in the Life of a Product

There are six stages in the life of most products. First, the idea is conceived and the experimental work performed in the laboratory or elsewhere. Second, if the idea appears to have commercial possibilities, a pilot plant is built. If the idea involves a marketing method or a new service, this pilot plant may be a new type of store, a drive-in movie theater, or a self-service laundry. Third, when the pilot operation has proved successful, comes the stage of starting production on a commercial basis and introducing the product on the market. At this time unusually heavy expenses will be incurred for improving the product, exchanging unsatisfactory units, and building a demand for the article. However, there will as yet be little or no competition, and the price may be high enough to yield a nice rate of profit. In the fourth stage, the product is generally accepted, and production and sales are increasing. This is usually the most profitable period of operation, as there are few competitors and little or no price rivalry has appeared. In the fifth stage, competitors increase in number, the market is saturated, competition becomes keen, and the rate of profits declines. Most of the profits are made by the more efficiently operated companies or by those whose products enjoy the greatest consumer acceptance. In the sixth stage, demand for the product declines, and it gradually goes out of use. If sales do not decline, there is no sixth stage. These stages shade into one another, and the lines of demarcation between them are not always easy to recognize.

From a profit-making angle, the best time to enter an industry is late in the second period or in the third period. Profits are usually greatest in the fourth period. A concern that has an efficient plant, a good product, and a going organization is in a position to secure the benefits of large sales and substantial profits.

Changes by Established Companies

Ice companies provide an illustration of the way in which established companies have to meet the challenge of changing times. In the early 1920's mechanical refrigerators were being sold to household consumers. The ice companies became very much concerned about their future. Some of them conducted surveys in 1926 or 1927 which revealed that a very large proportion of families had no refrigerators at all. By exploiting this newly discovered market, the ice companies would be able for many years to sell ice refrigeration to families which had no refrigerators, as fast as they lost customers to mechanical refrigeration. More active selling would assure them

of business for some time. In fact, it was not until 1951 — twenty-five years later — that the two ice companies in one Illinois community merged.

As mechanical refrigerators encroached on his business, an ice distributor had a choice of several courses of action. He could decide that after all his business was that of selling refrigeration, not necessarily ice, and accordingly enter the field of selling and servicing electric refrigerators. He could take old ice refrigerators as trade-ins and sell them to families with lower incomes. This procedure would prolong the life of his ice business. Or he could convert his ice plant into a locker plant, using his refrigerating machines to cool the lockers. His employees could be utilized for cutting meat and performing other services common in locker plants. He might specialize in the distribution of frozen foods, using the plant for storage purposes and his drivers in making deliveries. If he did not choose to follow any of these courses, he could continue to sell ice for a time, allow his equipment to depreciate, and invest the recovered capital in some other enterprise.

Changes in Methods of Operation

A business whose history provides a fascinating picture of change in methods of operation is the Great Atlantic and Pacific Tea Company. This enterprise was started in 1858 or 1859 by George Francis Gilman, a hide and leather merchant, who had learned of the very wide margin between the price of tea at ship's side and in retail stores. From a small beginning, this concern has grown to be the largest food business in the world, with sales of $3 billion annually. During its ninety-two years of existence, many changes have occurred in the methods of distributing not only tea, but also many other food products.

By 1865 Gilman had four stores and so was operating a chain. However, the early growth of his business came largely through orders by mail, and he was one of the pioneers in mail-order selling. He used the club plan, encouraging people to organize clubs through which they could get their tea a third cheaper than at local stores. This method was apparently very successful, as witnessed by the fact that he was repeatedly attacked in the *American Grocer* — as early as 1870 — as having a monopoly and underselling retailers. He asserted that he eliminated or replaced eight middlemen: the American house in China, the banker, the importer, the New York purchaser, the speculator who bought from that purchaser, the wholesale tea dealer, the wholesale grocer, and the retailer. Since Gilman bought in New York, he really replaced only five of the eight, if indeed there were so many. However, he undoubtedly did shorten the trade channel.

Tea was an article that had traditionally carried a high markup, a fact which helps to explain the ire of the retailers. An article which carries an abnormally high markup is subject to attack at any time.

Gilman used various names for his company; the principal one in use in the 1860's and early 1870's was the Great American Tea Company, which is still in existence. In 1870 Gilman was operating 11 stores.

Since the Great American Tea Com-

pany was under attack, and the word "American" was being imitated in many towns, Gilman desired a new name for some of his operations. The completion of the first trancontinental railroad in 1869 had captured the imagination of the American people as few events in our history have done. Gilman named his new firm the Great Atlantic and Pacific Tea Company. At one time this company was advertised as a wholesaler of tea — perhaps so that the retailers could buy their tea on such a basis that they could compete with the Great American Tea Company. As early as 1870 a branded tea, known as "Thea-Nectar," was advertised. Up to that time tea had been sold in bulk, with no identification except oolong, young hyson, and so on, varieties available to all retailers.

Gifts and premiums were used as early as 1871, and in 1900 a total of $450,000 was spent for premiums. Wagon routes were added, and reached their maximum in 1911, when some 5,000 such routes were operated. Sugar was added to the lines of teas and coffees in 1884, and baking powder and butter in 1890. A line of groceries was gradually added in the 1890's, and by 1904 a fairly extensive variety of package groceries was carried.

In 1858 Gilman had employed George Huntington Hartford in his St. Louis hide and leather business. About the time that Gilman quit that business, Hartford was brought to New York, where he was given more and more authority until 1878, when he was taken into partnership and Gilman retired. At that time the company operated stores in twenty or more cities, and its sales amounted to $1 million a year. In 1881 the partnership was operating a hundred stores. After Gilman's death, the business was incorporated (1902) with a capital of $2,100,000. In the years 1878-1901 the partnership had made a profit of $2,200,000; in the 1890's profits had amounted to $125,000 a year. The A & P stores of that time made deliveries and were early users of telephones. By 1911 their number had increased to 400. The managers were paid $12 or $13 a week, plus one percent of sales over $200.

The Hartfords (father and sons, George L. and John) tried out the new type of cash-carry store, which had first appeared in 1908, in one of their units. When they found it successful, they began opening economy stores early in 1913. These stores made no deliveries, had no telephones, gave no credit, and used no trading stamps or premiums. As the cost of living was rising, consumers welcomed this method of saving money on their food purchases. Having discovered a successful and profitable method of operation, the Hartfords pushed it. At the end of 1913 the company had 500 stores and by April 3, 1915, that number had doubled. In 1925 the company was operating 14,034 stores, and in 1930 there were 15,737, with sales of $1,065,800.[1]

The supermarket came into prominence in the 1930's, and its development made changes in the distribution picture. The A & P was not so prompt

[1] Information on the A & P for years prior to 1930 is taken largely from Roy J. Bullock, "Early History of the Great A & P Tea Company," *Harvard Business Review,* April and October, 1933.

as it might have been in opening such stores. The story is told that a competitor drove John Hartford around Brooklyn for two hours, pointing out the stores that the A & P had closed or was going to close because of losses. In nearly all cases the competitor directed Hartford's attention to his own supermarket near by. Shortly after this the A & P launched a great supermarket campaign and became the largest operator of such markets. As a result of the change to fewer and larger store units, the number of A & P stores had decreased to 4,650 in 1950. Their sales amounted to more than $3 billion, and their profits were almost $33 million.

Gilman, with his Great American Tea Company and Great Atlantic and Pacific Tea Company, originally sold by mail and operated a small chain of stores. Large use was made of premiums and of wagon routes selling from house to house, although it cannot be maintained that the Gilman companies originated these methods. Later, cash-carry (economy) stores were opened, but the A & P was not first in that field. The same is true of supermarkets, of prepackaged produce, and of prepackaged meat.[2] Some supermarkets have been selling drugs and toilet articles for several years. In the spring of 1951, the A & P was experimenting with these products in some of its markets.

The A & P has usually let others do the pioneer experimental work. It does not claim to be an innovator. As one competitor has said: "The success of the A & P has been its ability to carry the ball once it got started on a plan. The rest of us try something, drop it, try something else, drop it, but the A & P slowly makes up its mind and when it does it really moves." Thus, by keeping its eyes open, watching new developments, trying them if they appeared to have promise in the hands of others, introducing them on a wide scale if they proved successful, and pushing them aggressively, the A & P has usually been ahead of the majority of its competitors. This policy, together with very efficient operation, has put the company into the lead in the retail food field and has kept it there during the past forty years.

[2] *Printers' Ink,* November 2, 1945.

Changing Products to Meet Changed Demand

The Brunswick-Balke-Collender Company, now 106 years old, has grown by changing its product to meet changing demands. The business was started by John M. Brunswick, a Swiss cabinetmaker, who opened a small furniture shop in Cincinnati in 1845. He soon found the making of billiard tables was more profitable. The company added to its line bars, which at one time accounted for 40 percent of its sales, but when it foresaw the coming of Prohibition it dropped that business.

The company was a woodworking concern with skilled workers. It began to make piano cases, which required a high degree of skill in cabinetmaking. These cabinets were sold to piano manufacturers. Until piano sales fell off, the company did very well with this business. When people began to buy phonographs, the company started making phonograph cases. This business proved profitable for a few years, until

the phonograph manufacturers insisted on prices too low to allow satisfactory profits. Then the company itself entered the phonograph business. With the Brunswick phonograph, the company again had a product carrying its name, which had not been true of either piano or phonograph cases. The phonographs had to be sold to retail music stores — a new marketing method for the company. The making of phonographs led to the making of records. Later, the phonograph was replaced by the radio. Seeing that change coming, the company started research as early as 1922, almost as soon as radio broadcasting was started, and conceived the idea of a combined phonograph and radio. That product was placed on the market in 1924. Whenever a new product was ready for marketing, the company hired experienced salesmen to sell it.[3]

In the more recent years, bowling has become a popular sport. The Brunswick-Balke-Collender Company has entered this business and is the leader in the field. The sale of bowling alleys and equipment has been promoted in various ways, and research has been conducted to improve the alleys and necessary supplies. Billiard tables are still being manufactured and their sale promoted, but the ill repute of pool rooms has made billiard table promotional campaigns less successful than those conducted for bowling alleys.

The experience of this century-old company shows that a concern can not only stay in business but even increase its sales if it changes its products to meet changed demands, and changes its marketing methods to meet the needs of the new products.

[3] B. E. Bensinger, "The Two Policies that Have 'Saved' Our Business Three Times," *System, the Magazine of Business*, October, 1925.

Conclusions

What are some of the things that are happening that will continue to happen for a number of years? Cities are decentralizing. Three types of retail decentralization are taking place.

1. The continued growth of outlying shopping districts.

2. The development of individual stores outside the shopping district, with their own parking lots, as exemplified by the supermarkets and many Sears, Roebuck stores. The modern supermarket sells groceries, meats and fish, produce, bakery goods, and dairy products. Many of them also handle frozen foods, drugs, toilet articles, notions, magazines, and operate lunch counters or soda fountains. Some sell household hardware and certain types of clothing and employ pharmacists. With the exception of gasoline, they are becoming one-stop sources of convenience goods for the family. This method is unique for a store such as Sears, which handles fashion goods, as it is proverbial that fashion goods stores should be near other stores handling such items. However, the reputation of the company and the available parking space serve to attract customers to these stores.

3. The establishing of shopping centers, which sell both convenience and fashion goods, on undeveloped land near residential areas.

In the wholesale field, the trend is toward one-story warehouses located on the perimeter of a city and handling

goods on pallets with fork-lift trucks or other mechanical equipment. Public warehouses are beginning to build one-story plants, such as the Alford Warehouses in Dallas and the Grocers Terminal Warehouse in St. Louis.

Other developments in wholesaling are the continued growth of contract wholesalers and the rise of a new type, called rack jobbers, to service the minor departments in the supermarkets, notably drugs and toilet articles.

Books Reviewed

The Economy of Latin America. By Wendell C. Gordon (New York: Columbia University Press, 1950, pp. 434. $5.50)

Interest in Latin American affairs has increased in recent years. The present volume is designed to provide an economic survey of Latin America for the businessman and the public official, and to serve as a textbook for college courses in Latin American economics.

The author, associate professor of economics at the University of Texas, is well prepared for the task undertaken. He has traveled in most of the Latin American countries, has studied at the University of Havana and the University of Mexico, and has worked during several summers at the United States Embassy in Lima, Peru.

The book is divided into seven parts, including an introduction and a conclusion. An ample appendix contains forty-seven statistical tables and a carefully selected bibliography. At the outset the author traces the evolution of economic systems in the area from the pre-conquest culture to the present. Population characteristics, immigration policy, and national income and productivity are considered briefly.

Part II analyzes the organization of the factors of production under the headings of agriculture, mining, transportation, manufacturing, public utilities, government and business, and labor and social security. It is emphasized that the main problem for Latin America, as for other underdeveloped areas, is to increase per capita productivity, and to improve the standard of living by turning out a greater quantity of goods at a lower price. This entails industrialization and the improvement of agricultural techniques.

A leading question posed is whether Latin America has adequate technical skill, purchasing power, and capital for industrialization. None of these factors offers insurmountable barriers. Certain types of manufacturing, primarily in the field of light industries, are already well-entrenched; initial advances facilitate subsequent developments. The key to large-scale industrialization lies in the potentialities of the iron and steel industry. Although South America ranks last among the continents with respect to known coal deposits, iron ore deposits are extensive and of high quality. At least one country, Brazil, has a fairly promising outlook in heavy industry. Future emphasis upon light metals and atomic power might diminish the significance of raw materials essential for steel and increase that of raw materials necessary for light metal manufacturing.

Part III is concerned with capital formation, investments, public finance, and money and banking. The opinion is tendered that, although there are not at present enough private domestic funds in Latin America to provide for any marked increase in capital goods, the amount of such funds available now is greater than in any previous era. Hence, foreign investments from advanced nations might speed industrialization, but the absence of outside investments could only retard, not prevent, economic development.

In the discussion of pricing and production control, brief mention is made

of pricing techniques under conditions of free competition, monopolistic competition, and monopoly. Government intervention to attempt to control prices has been prevalent. Commodity control plans for selected products such as sugar, coffee, henequen, copper, nitrate, and tin are cited.

International trade, the subject of the next section, is of great significance to the countries in Latin America. A large proportion of the national production is exported in the form of raw materials and foodstuffs. The propensity to import is high; imports consist of machinery, iron and steel products, and manufactured consumer goods. Trade restrictions used by Latin American countries have included tariffs, quotas, embargoes, exchange control, and clearing and compensation agreements. Efforts to modify these restrictions through the United States reciprocal trade agreements program, customs unions, and the proposed International Trade Organization are reviewed. Latin American countries continue to use varied controls on their trade and foreign exchange transactions when they deem such devices of assistance in advancing their stage of economic development.

The author concludes that an economic system can be evaluated by its effectiveness in production and distribution. Latin America is in the process of developing a new economic system from materials within its own local environment, and a native economic philosophy to serve as a guide for action.

Professor Gordon strives to present an over-all study of the economic institutions of Latin America, rather than a description of economic conditions in the individual countries. He organizes his material around the major subdivisions of production and distribution. However, he allots most of his space to production, and devotes more chapters to land utilization and to the raising of capital than to an analysis of labor. The strategic position of capital in the industrialization process is generally recognized, but the critical problem of securing skilled workers and trained business managers also deserves thorough examination. The problem of developing a middle class with effective demand is basic. Since a healthy growth of manufacturing in Latin America must be posited upon an expanding domestic market and an active intra-regional trade, the topic of domestic trade might well have been given at least chapter status.

The author's desire to emphasize factors common to the divergent regions of the area, and to offer these factors within a framework of economic principles, is commendable. Of course Latin America cannot be considered a homogeneous unit, but Professor Gordon successfully counterbalances any tendency toward undue generalization by the frequent use of case studies to illustrate topical discussions. In this way the reader has before him the pertinent elements of general economic theory to assist his evaluation of conditions in Latin America, and by concentration upon an outstanding illustrative situation, he can avoid the confusion which results from profuse factual detail.

The chapter on money and banking is typical of the procedure followed in developing most of the major subjects

selected for inclusion in the book. The chapter begins with a description of the early history of money in Latin America, the managed currencies of 1929 and 1947, the present standard, proceeds to banking institutions, central banks, deposits, types of loans, explains such principles as those involved in the credit control powers of central banks, and closes with the special case of the Argentine Central Bank. Had the author gone even further in minimizing particulars, decreased the variety of topics included, and expanded the theoretical segments, the presentation might have been more forceful.

Numerous writings on Latin America have been only descriptive; too few have been analytical. There are many themes for a completely integrated study of Latin American economics — the evaluation of resource utilization, the examination of the process of economic development, the investigation of problems of a peripheral area in the world economy. This book points the way toward a comprehensive treatment of the subject. An abundance of up-to-date material is brought together from widely scattered sources and made available in one place. Professor Gordon has written an important addition to the growing literature on Latin American economics.

Grace Beckett

Principles of Business and the Federal Law. By Franklin H. Cook (New York: The Macmillan Company, 1951, pp. 553. $5.50)

The increased activity, during the past two decades, on the part of the government in areas related to business has prompted many students to write books in the general field of government and business, or in a specialized field in which only one phase of law is considered in detail. Professor Cook limits his book to a consideration of Federal law as it relates to business, but undertakes to give an exceedingly broad coverage of Federal constitutional provisions and legislation as they relate to our business activity. The book is well written, superbly outlined, and gives a combination text and case approach to the problems included. It is in reality two books in one volume: the first dealing with the Federal Constitution and Amendments as construed; the second devoted to specific Federal legislation. Each book is further divided into distinct parts.

Part I, being in a general way an introduction to our constitutional form of government, points out that, although our government is composed of executive, legislative, and judicial branches, under our Constitution early Supreme Court decisions established judicial supremacy. The judicial branch stands as the protector of our citizens in their relation to each other and to the state. There is recognition of the fact, of which all economists are increasingly aware, that the Federal government under its power to tax, to spend and to determine the method of financing that spending, and to use price controls is in a position to influence our national economy to a considerable extent. Private enterprise and private ownership receive substantial protection by Constitutional provisions against impairment of contracts and by the equal-protection and immunities clauses, although even these give way for the common good when the police

power and eminent domain are at stake.

Part II is devoted to a consideration of due process of law as interpreted by the courts in the fields of freedom of speech, labor, and the regulation of monopolistic and competitive industry. The author of the book concludes that the due process clauses — found in the Fifth and Fourteenth Amendments — are the most effective restrictions upon the power of Federal and state governments, but they are so flexibly drawn and construed that they can be fitted into the needs of the people and an expanding economy. "Guiding this growth is the 'higher law' concept; that is, the Court's idea of what is right and wrong."

Part III deals with the Commerce Clause, that clause which confers upon the Federal government the power "to regulate Commerce with foreign Nations, and among the several States," and which, under exceedingly liberal construction, has been so effectively used to gain entrance for the Federal government into many areas of business with controls designed for, or thought to be for, the common good. The author cites outstanding cases — and includes excerpts from many of them — which determine what shall be considered a burden in interstate commerce, and which authorize the Federal government to charter corporations to improve commerce between the states.

Part IV, with which Book II begins, concerns itself exclusively with legislation that imposes restraints on certain types of business activity. Because our American way of life is so dependent for its continuance upon freedom of competition and open entry to new business ventures, one would expect the author of a book of this character to devote considerable space to the Sherman, Clayton, and Robinson-Patman Acts, and to legislation dealing with patents, copyrights, and unfair trade practices. A detailed statement of these laws, and the interpretations placed upon them, can be found in this book.

Much legislation dealing with labor, its right to organize, and its relationship to management has been enacted by the Federal government. In Part V, Professor Cook presents a rather detailed recital of the provisions of these laws and provides many quotations from important cases. All significant Federal legislation is given liberal treatment in this section of the book.

Part VI contains information on Federal legislation designed to protect investors from abuse, and includes a consideration of the Public Utility Holding Company Act, the Securities Act, and related legislation.

The final part of Book II is devoted to the area of Federal regulation of transportation.

In viewing the book as a whole, it may be said that the author by general and concise statements, with a minimum of background material, has brought together a mass of information. Each chapter is followed by a summary and case problems to stimulate the reader's thinking. One might be critical of the fact that, although the author states the title as "Principles of Business and the Federal Law," almost no attention is given to business principles, and no careful, analytical study is made

of the economic effects of the legislation or court decisions which are presented. For this reason, it becomes primarily a legal work, with a minimum of business orientation. It could be a handy reference book for many fields in which a particular phase of Federal law is important, and it can serve effectively where the legal approach rather than the business approach is desirable.

E. R. Dillavou

BUREAU OF ECONOMIC AND BUSINESS RESEARCH

The Bureau of Economic and Business Research, established in 1921, is the research department of the College of Commerce and Business Administration. Economic and business information, including material on tested business practices, is compiled by the Bureau and made available to Illinois businessmen and others interested in business and related problems. Although the major part of its work deals especially with Illinois, the Bureau also engages in general economic research.

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